Habib Bank Zurich (Hong Kong) Limited

Annual Report 2018

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Corporate information

Board of Directors

Mohamedali R. Habib	Chairman
Paul Jeremy Brough	Independent Non-Executive Director
Alex Kwong Fai Kam	Independent Non-Executive Director
Rajat Garg	Non-Executive Director
Ikram Quraishi	Non-Executive Director
Sachil Dagur	Executive Director

Management

Sachil Dagur	Chief Executive
Jagrup Singh Dhillon	SEVP
Masud Abid	EVP
Meheryar Mavalvala	CFO

Auditors

KPMG, *Certified Public Accountants*

Parent company

Habib Bank AG Zurich, *Incorporated in Switzerland*

Report of the directors

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2018.

Principal place of business and principal activities

Habib Bank Zurich (Hong Kong) Limited ("the Bank") is a restricted licence bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 17/F, Wing On House, 71 Des Voeux Road, Central, Hong Kong.

The Bank is registered as a Restricted Licence Bank under the Hong Kong Banking Ordinance. The principal activities of the Bank are the taking of deposits and financing of import/export and local trade.

Operating results

Hong Kong's economy grew by 3% for the year 2018, down from 3.8% in 2017, particularly due to US-Mainland China trade tensions and hikes in US interest rates. Exports of goods grew moderately by 3.5%. Imports of goods grew by 4.9%, down from last year's 7.3%. The labour market showed further tightening in 2018, dropping to 2.8%. Consumer price inflation increased from 1.7% in 2017 to 2.6% in 2018.

As at 31 December 2018, the Bank's capital adequacy ratio stood at 32% while maintaining a capital base above HK$500 million. The Bank's customer deposit base, including imprest accounts and margin deposits on letters of credit and trade bills stood at HK$1.59 billion (2017: HK$1.56 billion). Based on the balance sheet strength, the Bank prudently managed its lending portfolio. As at the year end, total advances to customers including trade bills increased by 8% to HK$1.36 billion (2017: HK$1.26 billion).

Report of the directors (continued)

Operating results (continued)

Liquidity was managed on a prudent basis. A portion of surplus liquidity was invested in short and medium term debt securities. During the year, average liquidity was maintained at 85% (2017: 90%).

During the year, export bills totalling HK$5.76 billion (2017: HK$5.81 billion) and import bills of HK$1.68 billion (2017: HK$2.15 billion) were processed. Import letters of credit for HK$1.48 billion (2017: HK$2.06 billion) were opened. Profit after tax was HK$18.93 million (2017: HK$21.86 million).

In 2019, global economic growth is likely to decelerate mainly due to US-Mainland trade tensions and US monetary policy. Other developments such as Brexit, geopolitical tensions and domestic politics in some advanced economies may also have an impact. The external environment in Hong Kong is therefore challenging. Trade relations between the Mainland and the US are a key source of uncertainty for Hong Kong's export outlook. Taking all these factors into account, the Hong Kong economy is forecast to grow by 2% to 3% in 2019.

Risk management

The Bank has established policies and procedures to identify and analyse key risks facing the Bank, to set appropriate risk limits and to devise controls, and to monitor such risks and limits continually by means of reliable and up-to-date management information systems. The Bank continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes.

(i) Board level committees

The Board of Directors has established two board level committees, namely the Board Risk and Credit Committee and the Board Audit and Compliance Committee.

The Board Risk and Credit Committee is responsible for, among other things, the Bank's risk profile, risk appetite and tolerance, effectiveness of the risk management framework and systems of internal control. The Committee comprises of two independent non-executive directors, two non-executive directors and one executive director.

The main purpose of the Board Audit and Compliance Committee is to represent and assist the Board of Directors in providing independent review and monitoring of the financial reporting process, internal control system, the internal and external audit process and compliance with regulatory requirements. The Committee is chaired by an independent non-executive director and comprises a further independent non-executive director and a non-executive director.

Report of the directors (continued)

Risk management (continued)

(ii) Specialized management committees

The Board of Directors has also established several specialized management committees and working groups, namely the Executive Committee, Risk and Credit Committee, Audit and Compliance Committee, Asset and Liability Committee, Operations and Technology Working Group and Human Resources Working Group.

The Executive Committee addresses issues of management, structure, organization, communication and implementation of current and future strategy. The Committee reviews the development and implementation of the strategy, operating and financial performance, prioritization and allocation of resources, assessment of control risk and operational plans. The Committee comprises the Chief Executive, Alternate Chief Executives, Head of Risk, Chief Financial Officer, Head of Compliance and other executives.

The Risk and Credit Committee is entrusted with the task of putting in place systems and procedures that address the prevention of risks emerging or likely to emerge. The Committee identifies all quantifiable and material risk factors and evaluates the adequacy of organisational policies and procedures to manage the risks effectively. The Committee is responsible for monitoring and reviewing regulatory compliance within the institution. The Committee is responsible for building and maintaining an infrastructure that promotes growth of a quality loan portfolio and minimises losses within the constraints of established policies and relevant regulations. The Committee approves credit limits up to a defined threshold. It also determines and maintains adequate loan loss allowances. The Committee comprises the Chief Executive, Head of Risk, Chief Operating Officer, Chief Financial Officer, Head of Credit Risk and other executives.
The purpose of the Audit and Compliance Committee is to review and resolve audit issues and have oversight and ensure compliance with legal and regulatory requirements. The Audit and Compliance Committee consists of the Chief Executive, Alternate Chief Executives, Head of Compliance, Head of Risk and Chief Financial Officer.

The Asset and Liability Committee's principal responsibility is to maintain an effective risk control framework relating to balance sheet structure, liquidity and capital management and market risks while achieving an optimal return. The Committee recommends policy directives to the Board of Directors and provides analytical services relating to funding and investment strategies. The Committee comprises the Chief Executive, Alternate Chief Executives, Head of Risk, Chief Financial Officer and other executives.

The Operations and Technology Working Group is responsible for operational risk and technology related matters such as authorization of system changes, review of computer hardware/software security and performance, overview of data integrity of transactions and information. The committee comprises the Chief Executive, Alternate Chief Executives, Head of IT, Head of Risk, Chief Financial Officer, Head of Compliance and other executives.

Report of the directors (continued)

Risk management (continued)

(ii) Specialized management committees (continued)

The Human Resources Working Group is responsible for overseeing various staff management issues like capacity planning practices, succession planning, reviewing compensation and reward policies, performance management schemes, framework for staff promotion and grading, and staff training and development plan. The committee comprises the Chief Executive, Alternate Chief Executives, Head of Human Resources and other executives.

(a) Credit risk management

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from lending, trade finance, derivatives and other activities.

The Bank has policies and procedures in place to ensure that credit risk is properly addressed and managed at the transaction and portfolio levels. The Board of Directors formulates and updates the credit policies. The Bank's credit policies define credit extension criteria, credit sanctions, review and monitoring mechanisms, and the loan classification and provisioning policy.

To avoid large financial risk, the exposure to a single borrower or group of related borrowers is limited to a percentage of the capital base. Country risk concentration is managed by setting up country exposure limits and emphasising wide geographical spread of export markets.

The Bank holds collateral against advances to customers in the form of mortgages over property and cash deposits. Collateral held as security for financial assets other than advances to customers is determined by the nature of the instrument.

To mitigate credit risk, the Bank enters into netting arrangements with counterparties. Netting arrangements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis. Except for the event of default, all outstanding transactions with the counterparty are settled on a gross basis and generally do not result in offsetting the assets and liabilities in the balance sheet.

(b) Market risk management

Market risk is the risk that movements in interest rates or foreign exchange rates will result in losses in on and off balance sheet positions.

The Bank's policy is to take no proprietary trading positions. The Bank does not engage in speculative trading activities, and hence it is not exposed to market risk arising from the trading book.

Report of the directors (continued)

Risk management (continued)

(b) Market risk management (continued)

Currency risk management

Currency risk is the risk to earnings or capital emanating from the movement of foreign exchange rates. Foreign exchange exposures originate mainly from the trade finance business. The risk thereof is largely eliminated by consciously devising policies that expressly prohibit speculation in currencies and mandate that trade finance related currency transactions are covered simultaneously and aggregate net open positions are managed within limits. All exposures are monitored by the finance department on a daily basis and reviewed periodically by the Asset and Liability Management Committee.
The Bank does not trade in foreign currencies, nor takes any other exposures on account of its clients. The Bank's foreign currency transactions primarily relate to discounting of foreign currency export and import bills. The exchange positions arising from trade bills as well as customers' foreign currency deposit-related transactions are covered in the local market. From time to time the Bank enters into foreign exchange forward transactions to mitigate currency risk.
As the majority of the Bank's assets and liabilities are denominated in either Hong Kong dollars ("HK$") or United States dollars ("US$") and the US$ is pegged to the HK$, management does not consider there to be any significant currency risk associated with them.

Interest rate risk management

The Bank's interest rate risk positions arise from trade finance, investments, lending and deposit taking activities. Interest rate risk primarily results from the timing difference in the repricing of interest-bearing assets and liabilities. It also relates to positions from non-interest bearing liabilities including shareholders' funds, as well as from certain fixed rate trade finance transactions and liabilities.

The Bank monitors interest rate movements by applying a weighting to assets and liabilities on the balance sheet. Management monitors the weighted average rates on deposits, lending, placements and investments to identify any mismatched exposures and alters the interest rate strategy accordingly. Interest bearing deposits from customers are for a fixed maturity mostly for a three month period and are generally utilised for a similar period. Surplus liquidity is placed in the interbank market and investments. A greater portion of the loans and trade advances is repriceable on a per-transaction basis. Hence the risk element is contained swiftly and the magnitude of the risk posed by interest rates movement is low.

(c) Liquidity risk management

Liquidity relates to the ability of a Bank to meet its obligations as they fall due. Liquidity and funding risk is the risk that the Bank is unable to meet its payment obligations when due, or that it is unable, on an on-going basis, to borrow funds in the market on an unsecured, or even secured, basis at an acceptable price to fund actual or proposed commitments.

Report of the directors (continued)

Risk management (continued)

(c) Liquidity risk management (continued)

The Bank manages the liquidity structure of its assets, liabilities and commitments so as to ensure that liquidity sources match funding needs and that the statutory liquidity maintenance ratio is complied with.

The finance department reviews the current and prospective funding requirements for all operations through monitoring of the liquidity maintenance ratio and the maturity mismatch profile. Liquidity risk is managed by holding sufficient liquid assets (e.g. cash and short term funds) of appropriate quality to ensure that short term funding requirements are covered within prudent limits. Customer deposits form a significant part of the Bank's overall funding and they have remained relatively diversified and stable. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business. The Asset and Liability Management Committee measures the liquidity and adequacy of funds periodically and evaluates the overall risks and mitigation. The Committee also manages the funds and investments within the internal and regulatory framework.

(d) Operational risk management

Operational risk is the risk of potential loss arising from inadequate or failure in internal processes, people and systems or from external events. It arises from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputational loss.

The Board of Directors and senior management are responsible for approving and reviewing the overall business strategies and the policies for each major area of operations. An Operations and Technology Working Group is in place to manage operational risks with oversight by the Risk and Credit Committee.

The Bank recognises the importance of managing operational risk in a pro-active manner. Operational risk management tools and mechanisms adopted include operational risk incidents reporting, key risk indicators, operation manuals, accounting controls, business continuity planning, insurance policies etc.

The Bank attaches great importance to conducting its business in a safe and sound manner. Strict control is exercised at every level of operations. Additionally, an internal audit system plays an essential role in ensuring due adherence to policies, various internal and statutory limits, and regulatory requirements thus limiting operational risk.

(e) Capital management

The Bank's primary objectives when managing capital are to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk being taken and by securing access to finance at a reasonable cost.

Report of the directors (continued)

Risk management (continued)

(e) Capital management (continued)

The Bank actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

(f) Compliance

Compliance is an integral part of the Bank's risk management function taking care of risks associated with regulatory non-compliance and financial crime risks. The Bank places high importance on the potential risks arising out of non-compliance including loss of reputation, supervisory actions or other regulatory measures including monetary penalties.

The compliance function in the Bank has been given the responsibility of supervising and mitigating compliance risk. Its mandate includes assimilation and dissemination of regulatory requirements relating to the business of the Bank, compliance advisory for implementation of relevant regulations and guidelines to various functions and conducting periodic self-assessments and other regulatory compliance reviews on a risk based approach. It also manages the framework and governance of anti-money laundering and counter-terrorist financing activities to be prevented by the Bank.

The compliance function is tasked to regularly report compliance matters to Senior Management. It also reports significant issues through the Audit and Compliance Committee to the Board of Directors.

Financial statements

The results of the Bank for the financial year ended 31 December 2018 and the state of the Bank's affairs as at that date are set out in the financial statements on pages 15 to 100.

The directors recommend the payment of a dividend of HK$15.0 million (2017: HK$15.0 million) in respect of the year ended 31 December 2018.

Transfer to reserves

Profit attributable to shareholders, before dividends, of HK$18.93 million (2017: HK$21.86 million) has been transferred to reserves. Other movements in reserves are set out on page 17 and note 24.

Report of the directors (continued)

Compliance with the Banking (Disclosure) Rules

The financial statements for the financial year ended 31 December 2018 comply fully with the applicable disclosure provisions of the Banking (Disclosure) Rules.

Share capital

Details of the share capital of the Bank are set out in note 23 to the financial statements.

Charitable donations

Donations made by the Bank during the year amounted to HK$ 161,000 (2017: HK$155,962).

Directors

The directors during the financial year and up to the date of this report were:

Mr Mohamedali R. Habib
Mr Rajat Garg
Mr Ikram Quraishi
Mr Paul Jeremy Brough
Mr Sachil Dagur (appointed on 8 March 2018)
Mr Alex Kwong Fai Kam (appointed on 9 August 2018)

At no time during the financial year was the Bank, its holding company or a fellow subsidiary a party to any arrangement to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Indemnity of directors

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Bank is currently in force and was in force throughout this year.

Report of the directors (continued)

Directors' interests in transactions, arrangements or contracts

No transaction, arrangement or contract of significance to which the Bank, its holding company, or any of its subsidiaries or fellow subsidiaries was a party, and in which a director of the Bank had a material interest, subsisted at the end of the year or at any time during the year.

Auditors

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Bank is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Mohamedali R. Habib
Chairman

Hong Kong,
21 March 2019

Independent auditor's report to the members of Habib Bank Zurich (Hong Kong) Limited

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of Habib Bank Zurich (Hong Kong) Limited ("the Bank") set out on pages 15 to 100, which comprise the statement of financial position as at 31 December 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditor's report to the members of Habib Bank Zurich (Hong Kong) Limited (continued)

(Incorporated in Hong Kong with limited liability)

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent auditor's report to the members of Habib Bank Zurich (Hong Kong) Limited (continued)

(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the financial statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road, Central, Hong Kong
16 April 2019

Statement of profit or loss and other comprehensive income for the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	Note	2018	2017
Interest income calculated using the effective interest method	2(a)	84,254,514	70,269,302
Interest expense	2(b)	(22,446,432)	(17,956,020)
Net interest income		**61,808,082**	**52,313,282**
Fee and commission income	3	27,424,138	26,021,564
Fee and commission expense		(892,853)	(759,428)
Net fee and commission income		**26,531,285**	**25,262,136**
Other net income	4	20,966,364	21,189,398
Operating income		**109,305,731**	**98,764,816**
Operating expenses	5	(79,301,453)	(68,100,319)
		$30,004,278	$30,664,497
Net charge of impairment allowances	7	(7,117,610)	(4,080,000)
Profit before taxation		**22,886,668**	**26,584,497**
Income tax	8(a)	(3,961,657)	(4,724,145)
Profit for the year		**18,925,011**	**21,860,352**
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income (FVOCI) - net movement in the fair value reserve	9	887,716	
Available-for-sale financial assets - net movement in the available-for-sale financial assets revaluation reserve			356,935
Total comprehensive income for the year		**19,812,727**	**22,217,287**

The notes on pages 20 to 100 form part of these financial statements.

Statement of financial position at 31 December 2018

(Expressed in Hong Kong dollars)

	Note	2018	2017
Assets			
Cash and balances with banks	10	207,080,565	185,970,076
Placements with banks	11	9,859,244	213,077,876
Investments	12	460,542,344	385,365,719
Trade bills	13(a)	594,596,815	581,805,310
Advances to customers	14(a)	766,025,122	674,696,705
Tax paid in advance	20(a)	2,114,221	-
Deferred tax assets	20(b)	3,133,341	4,093,455
Fixed assets	15	102,712,891	106,150,137
Other assets	16	22,400,472	84,667,701
Total assets		**2,168,465,015**	**2,235,826,979**
Liabilities			
Deposits and balances from banks	17	6,195,755	29,689,647
Deposits from customers	18	1,328,134,836	1,237,349,610
Current taxation	20(a)	-	1,252,333
Other liabilities	19	280,317,378	412,802,749
Total liabilities		**1,614,647,969**	**1,681,094,339**
Equity			
Share capital	23	300,000,000	300,000,000
Reserves		253,817,046	254,732,640
Total equity		**553,817,046**	**554,732,640**
Total equity and liabilities		**2,168,465,015**	**2,235,826,979**

The notes on pages 20 to 100 form part of these financial statements.

Approved and authorised for issue by the Board of Directors on 21 March 2019

Sachil Dagur
Chief Executive
&Executive Director

Mohamedali R. Habib
Chairman

Statement of changes in equity for the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	Share capital	Property revaluation reserve	Regulatory reserve	Fair value reserve	Retained earnings	Total
At 1 January 2017	300,000,000	11,243,741	16,000,000	(1,539,116)	218,810,728	544,515,353
Dividend approved and paid in respect of prior year	-	-	-	-	(12,000,000)	(12,000,000)
Profit for the year	-	-	-	-	21,860,352	21,860,352
Other comprehensive income for the year	-	-	-	356,935	-	356,935
At 31 December 2017	**300,000,000**	**11,243,741**	**16,000,000**	**(1,182,181)**	**228,671,080**	**554,732,640**
At 1 January 2018, as previously reported	300,000,000	11,243,741	16,000,000	(1,182,181)	228,671,080	554,732,640
Adjustment on initial application of HKFRS 9	-	-	-	-	(5,728,321)	(5,728,321)
At 1 January 2018, as restated	300,000,000	11,243,741	16,000,000	(1,182,181)	222,942,759	549,004,319
Dividend approved and paid in respect of prior year	-	-	-	-	(15,000,000)	(15,000,000)
Profit for the year	-	-	-	-	18,925,011	18,925,011
Other comprehensive income for the year	-	-	-	887,716	-	887,716
At 31 December 2018	**300,000,000**	**11,243,741**	**16,000,000**	**(294,465)**	**226,867,770**	**553,817,046**

The notes on pages 20 to 100 form part of these financial statements.

Cash flow statement for the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	2018	2017
Operating activities		
Profit before taxation	22,886,668	26,584,497
Adjustments for non-cash items:		
Depreciation	4,244,518	4,074,406
Charge for impairment losses	7,123,610	4,080,000
Advances written off net of recoveries	(17,891,437)	(7,496,123)
Loss/(gain) on disposal of fixed assets	27,845	(6,000)
Gain on redemption/disposal of investment	(92,867)	(66,733)
Amortisation of bond premium	3,784,597	4,222,015
Exchange revaluation of bonds	735,808	(2,109,845)
	20,818,742	**29,282,217**
Decrease/(increase) in placements with banks with original maturity beyond 3 months	106,806,406	(21,839,732)
Increase in trade bills	(5,681,853)	(86,672,107)
Increase in advances to customers	(93,929,614)	(188,989,035)
(Decrease)/increase in deposits and placements from banks	(3,948,976)	3,736,404
Increase/(decrease) in deposits from customers	90,785,226	(153,073,749)
(Decrease)/increase in other liabilities	(132,558,190)	101,811,940
Decrease/(increase) in other assets	62,234,274	(51,052,222)
Cash generated from/(used in) operations	**44,526,015**	**(366,796,284)**
Income tax paid		
Hong Kong profits tax paid	(5,721,782)	(2,372,750)
Net cash generated from/(used in) operating activities	**38,804,233**	**(369,169,034)**

Cash flow statement for the year ended 31 December 2018 (continued)

(Expressed in Hong Kong dollars)

	2018	2017
Investing activities		
Payments for purchase of fixed assets	(835,117)	(1,534,572)
Proceeds from sales of fixed assets	-	6,000
Payments for purchase of investments	(201,517,977)	(74,476,551)
Proceeds from redemption of investments	112,818,428	98,964,325
Proceeds from sales of investments	10,047,168	-
Net cash (used in)/generated from investing activities	**(79,487,498)**	**22,959,202**
Financing activity		
Dividends paid	(15,000,000)	(12,000,000)
Net cash used in financing activity	**(15,000,000)**	**(12,000,000)**
Net decrease in cash and cash equivalents	**(55,683,265)**	**(358,209,832)**
Cash and cash equivalents at 1 January	268,794,331	627,004,163
Cash and cash equivalents at 31 December	**213,111,066**	**268,794,331**
Analysis of the balances of cash and cash equivalents		
Cash and balances with banks	207,151,196	185,970,076
Overdraft	(2,270,123)	(21,815,039)
Placements with banks with original maturity of three months or less	8,229,993	104,639,294
	213,111,066	**268,794,331**
Cash flows from operating activities include:		
Interest received	80,513,650	72,735,006
Interest paid	(20,066,783)	(18,747,426)

The notes on pages 20 to 100 form part of these financial statements.

Notes to the financial statements
(Expressed in Hong Kong dollars)

1 Significant accounting policies

Habib Bank Zurich (Hong Kong) Limited (the "Bank") is a restricted licensed bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 17/F, Wing On House, 71 Des Voeux Road, Central, Hong Kong.

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. Significant accounting policies adopted by the Bank are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Bank. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Bank for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except for the revaluation of a residential apartment and certain financial instruments as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.
Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 30.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Bank. Of these, the following developments are relevant to the Bank's financial statements:

i. HKFRS 9, Financial instruments
ii. HKFRS 15, Revenue from contracts with customers
iii. HK(IFRIC) 22, Foreign currency transactions and advance consideration

The Bank has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, Prepayment features with negative compensation which have been adopted at the same time as HKFRS 9.

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.The Bank has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Bank has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.The following table summarises the impact of transition to HKFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018:

	Impact of application of HKFRS 9
Fair value reserve	
Closing balance under HKAS 39 (31 December 2017)	(1,182,181)
Recognition of expected credit losses under HKFRS 9 for debt financial assets at FVOCI	-
Related tax	-
Opening balance under HKFRS 9 (1 January 2018)	(1,182,181)
Retained earnings	
Closing balance under HKAS 39 (31 December 2017)	228,671,080
Recognition of expected credit losses under HKFRS 9 (including loan commitments and financial guarantee contracts)	(6,550,053)
Related tax	821,732
Opening balance under HKFRS 9 (1 January 2018)	222,942,759

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

(i) HKFRS 9, Financial instruments (continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

A. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories in accordance with HKAS 39 and the new measurement categories under HKFRS 9 for the Bank's financial assets as at 1 January 2018.

	At 1 January 2018			
	Classification		Carrying Amount	
	HKAS 39	*HKFRS 9*	*HKAS 39*	*HKFRS 9*
Financial assets				
Cash and balances with banks	Loans and receivable	Amortised cost	185,970,076	185,671,302
Placements with banks	Loans and receivable	Amortised cost	213,077,876	212,813,880
Investments – debt securities	Held to maturity	Amortised cost	344,127,908	344,069,823
Investments – debt securities	Available for sale	FVOCI	41,237,811	41,228,047
Trade bills	Loans and receivable	Amortised cost	581,805,310	585,971,593
Advances to customers	Loans and receivable	Amortised cost	674,696,705	665,009,698
Other financial assets	Loans and receivable	Amortised cost	83,548,505	83,460,312
Total financial assets			**2,124,464,191**	**2,118,224,655**

There were no changes to the classification and measurement for the Bank's financial liabilities.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

(i) HKFRS 9, Financial instruments (continued)

A. Classification of financial assets and financial liabilities (continued)
The following table reconciles the carrying amounts under HKAS 39 to the carrying amounts under HKFRS 9 on 1 January 2018.

	HKAS 39 carrying amount as at 31 December 2017	*Reclassification*	*Remeasurement*	*HKFRS 9 carrying amount as at 1 January 2018*
Financial assets				
Cash and balances with banks	185,970,076	-	(298,774)	185,671,302
Placements with banks	213,077,876	-	(263,996)	212,813,880
Investments classified as held to maturity	344,127,908	-	(58,085)	344,069,823
Investments measured at available for sale	41,237,811	-	(9,764)	41,228,047
Trade bills	581,805,310	-	4,166,283	585,971,593
Advances to customers	674,696,705	-	(9,687,007)	665,009,698
Other financial assets	83,548,505	-	(88,193)	83,460,312
Total financial assets	**2,124,464,191**	**-**	**(6,239,536)**	**2,118,224,655**

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial adoption of HKFRS 9.

The Bank did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

B. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.
The Bank applies the new ECL model to the following items:

- financial assets measured at amortised cost (including cash and balances with banks, placements with banks, investments measured at amortised cost, trade bills, advances to customers and other assets);
- investments measured at fair value through other comprehensive income;
- financial guarantee contracts issued; and
- loan commitments issued, which are not measured at FVPL.

For further details on the Bank's accounting policy for accounting for credit losses, see accounting policy note 1(f).

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

(i) HKFRS 9, Financial instruments (continued)

B. Credit losses (continued)

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018:

	31 December 2017			*1 January 2018*
	HKAS 39	*Reclassification*	*Remeasurement*	*HKFRS 9*
Impairment allowances				
Cash and balances with banks at loans and receivable under HKAS 39/cash and balances with banks at amortised cost under HKFRS 9	-	-	298,774	298,774
Placements with banks at loans and receivable under HKAS 39/placements with banks at amortised cost under HKFRS 9	-		263,996	263,996
Investments at held-to-maturity under HKAS 39/ investments at amortised cost under HKFRS 9	-		58,085	58,085
Investments at available-for-sale under HKAS 39/investments at FVOCI under HKFRS 9	-		9,764	9,764
Trade bills at loans and receivable under HKAS 39/trade bills at amortised cost under HKFRS 9	11,706,582		(4,166,283)	7,540,299
Advances to customers at loans and receivable under HKAS 39/advances to customers at amortised cost under HKFRS 9	18,797,000		9,687,007	28,484,007
Other financial assets at loans and receivable under HKAS 39/other financial assets at amortised cost under HKFRS 9	-		88,193	88,193
Loan commitments and financial guarantees issued	-		310,516	310,516
Total impairment allowances	**30,503,582**	**-**	**6,550,052**	**37,053,634**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

(i) HKFRS 9, *Financial instruments* (continued)

C. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirement of HKFRS 9 and therefore is not comparable to the information presented in 2018 under HKFRS 9.
- The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Bank).
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Bank has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 18. The adoption of this standard does not have a material impact on the Bank's financial statements.

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This Interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Bank.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(d) Revenue and other income

(i) Interest income and expense

(A) Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense for all interest-bearing financial instruments are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit- impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(d) Revenue and other income (continued)

(i) Interest income and expense

(A) Policy applicable from 1 January 2018

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes interest on financial assets and financial liabilities measured at amortised cost and interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost.

Interest income and expense on other financial assets and financial liabilities at FVPL are presented in net income from other financial instruments at FVPL.

(B) Policy applicable before 1 January 2018

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes interest on financial assets and financial liabilities measured at amortised cost and interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost.

Interest income and expense on all trading assets and liabilities were considered to be incidental to the Bank's trading operations and were presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

xpense on other financial assets and financial liabilities carried at FVPL were presented in net income from other financial instruments at FVPL.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(d) Revenue and other income (continued)

(ii) Fee and commission income

Fee and commission income is recognized in profit or loss on an accrual basis in accordance with the terms of the relevant agreements. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Net income from other financial instruments at fair value through profit or loss
Net income from other financial instruments at FVPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at FVPL and, from 1 January 2018, also non-trading assets mandatorily measured at FVPL. The line item includes fair value changes, interest, dividends and foreign exchange differences.

(e) Intangible assets

Intangible assets comprise a club membership acquired by the Bank which is stated in the statement of financial position at cost less impairment losses (see note 1(i)).

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives.

(f) Financial assets and financial liabilities

(i) Recognition and initial measurement

The Bank initially recognises loans and advances, deposits and debt securities issued on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(ii) Classification

Financial assets

(A) Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

All other financial assets are classified as measured at FVPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(ii) Classification (continued)

(A) Policy applicable from 1 January 2018 (continued)

Business model assessment (continued)

- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are SPPI

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(ii) Classification (continued)

(A) Policy applicable from 1 January 2018

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Bank will benefit from any upside from the underlying assets.

Contractually linked instruments

The Bank has some investments in securitisations that are considered contractually linked instruments. Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the SPPI criterion only if all of the following conditions are met:

- the contractual terms of the instrument itself give rise to cash flows that are SPPI without looking through to the underlying pool of financial instruments;
- the underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are SPPI; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are SPPI; or align the cash flows of the contractually linked instruments with the cash flows of the pool of underlying instruments under (i) arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and
- the exposure to credit risk inherent in the contractually linked instruments is equal to or less than the exposure to credit risk of the underlying pool of financial instruments.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(ii) Classification (continued)

(A) Policy applicable from 1 January 2018

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

(B) Policy applicable before 1 January 2018

The Bank classified its financial assets into one of the following categories:

- loans and receivables;
- held-to-maturity; and
- available-for-sale.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVPL.

(iii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also (iv)), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset (excluding equity investment securities), the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(iii) Derecognition (continued)

Financial assets (continued)

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and- repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Modifications of financial assets and financial liabilities

(A) Policy applicable from 1 January 2018

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(iv) Modifications of financial assets and financial liabilities (continued)

(A) Policy applicable from 1 January 2018

Financial assets (continued)

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(iv) Modifications of financial assets and financial liabilities (continued)

(B) Policy applicable before 1 January 2018

Financial assets

If the terms of a financial asset were modified, then the Bank evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised (see (iii)) and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre- modification interest rate (see (vii)).

Financial liabilities

The Bank derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss.

Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(vi) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vi) Fair value measurement (continued)

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at average of bid and ask prices and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vii) Impairment

(A) Policy applicable from 1 January 2018

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as "Stage 1 financial instruments".

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as "Stage 2 financial instruments" .

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see (iv)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vii) Impairment (continued)

(A) Policy applicable from 1 January 2018 (continued)

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, are credit-impaired (referred to as "Stage 3 financial instruments"). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vii) Impairment (continued)

(A) Policy applicable from 1 January 2018 (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- financial guarantee contracts: generally, as a provision;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Non-integral financial guarantee contracts

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's bank.

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vii) Impairment (continued)

(B) Policy applicable before 1 January 2018

The carrying amounts of the Bank's financial assets were reviewed at the end of each reporting period to determine whether there was objective evidence of impairment. If any such evidence existed, the carrying amount was reduced to the estimated recoverable amount by means of a charge to profit or loss.

Impairment losses were written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables and held-to-maturity investments, which were measured at amortised cost, whose recovery was considered doubtful but not remote. In this case, the impairment losses were recorded using an allowance account. When the Bank was satisfied that recovery is remote, the amount considered irrecoverable was written off against loans and receivables or held-to-maturity investments directly and any amounts held in the allowance account relating to that borrower/investment were reversed. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

Loans and receivables

Impairment losses on loans and receivables were measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed on initial recognition of these assets). Receivables with a short duration were not discounted if the effect of discounting was immaterial.
The total allowance for credit losses consisted of two components: individual impairment allowances and collective impairment allowances.

The Bank first assessed whether objective evidence of impairment existed for financial assets that were significant. If the Bank determined that no objective evidence of impairment existed for an individually assessed financial asset whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Assets that were individually assessed for impairment and for which an impairment loss was or continued to be recognised were not included in a collective assessment of impairment.

The individual impairment allowance was based upon management's best estimate of the present value of the cash flows which were expected to be received discounted at the original effective interest rate. In estimating these cash flows, management made judgements about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Bank. Each impaired asset was assessed on its own merits.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vii) Impairment (continued)

(B) Policy applicable before 1 January 2018 (continued)

Loans and receivables (continued)

In assessing the need for a collective impairment allowance, management used statistical modelling and considered historical trends of factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Bank made assumptions both to define the way the Bank modelled inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Bank made depends on how well the Bank could estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involved judgement, the Bank believed that the impairment allowances on loans and advances to customers were reasonable and supportable.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that could be linked objectively to an event occurring after the write-down, would result in a change in the impairment allowances on loans and receivables and be charged or credited to the statement of comprehensive income. A reversal of impairment losses was limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognised in prior years.

When there was no reasonable prospect of recovery, the loan and the related interest receivable were written off.

Loans and receivables with renegotiated terms were loans that had been restructured due to deterioration in the borrower's financial position and where the Bank had made concessions that it would not otherwise consider. Renegotiated loans and receivables were subject to ongoing monitoring to determine whether they remained impaired or past due.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vii) Impairment (continued)

(B) Policy applicable before 1 January 2018 (continued)

Held-to-maturity investments

Impairment on held-to-maturity investments was considered at both an individual and collective level. The individual impairment allowance was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate, where the effect of discounting was material.

All significant assets found not to be individually impaired were then collectively assessed for any impairment that had been incurred but not yet identified. Assets that were not individually significant were then collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through the income statement. A reversal of impairment losses should not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Available-for-sale investments

For available-for-sale securities, the cumulative loss that had been recognised in the fair value reserve was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(g) Loans and receivables

(A) Policy applicable from 1 January 2018

Loans and receivables include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

(B) Policy applicable before 1 January 2018

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than (a) those that the Bank intended to sell immediately or in the near term, which would be classified as held for trading; (b) those that the Bank, upon initial recognition, designated as at fair value through profit or loss or as available-for-sale; or (c) those where the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which would be classified as available for sale. Loans and receivables mainly comprised advances to customers, trade bills and placements with banks and financial institutions.

Loans and receivables were carried at amortised cost using the effective interest method, less impairment losses, if any.

(h) Investment securities

(A) Policy applicable from 1 January 2018
Investment securities include:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- debt securities measured at FVOCI.
- For debt securities measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:
- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from fair value reserve to profit or loss.

1 Significant accounting policies (continued)

(h) Investment securities (continued)

(B) Policy applicable before 1 January 2018

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, FVTPL or available-for-sale.

Held-to-maturity investments

Held-to-maturity investments were non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Bank had the positive intention and ability to hold to maturity, other than (a) those that the Bank, upon initial recognition, designated as at fair value through profit or loss or as available for sale; and (b) those that met the definition of loans and receivables.

Held-to-maturity investments were carried at amortised cost using the effective interest method less impairment losses, if any.

Available-for-sale investments

Investments in securities which did not fall into any of the above categories were classified as available-for-sale securities. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve.

Interest income from debt securities calculated using the effective interest method was recognised in profit or loss in accordance with the policy set out in note 1(d).

When the investments were derecognised or impaired, the cumulative gain or loss recognised in equity was reclassified to profit or loss.

(i) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to profit or loss. Impairment losses are written off against the corresponding assets directly.

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired:

- Fixed assets (other than properties carried at revalued amounts); and
- Intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(i) Impairment of non-financial assets (continued)

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, if measurable, or value in use, if determinable.

- Reversals of impairment losses

  An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

  A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and placements with banks with original maturity of three months or less for the purpose of the cash flow statement. Bank overdrafts that are repayable on demand and form an integral part of the Bank's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(k) Fixed assets

Fixed assets are held for own use and are stated at cost or valuation less accumulated depreciation and impairment losses (note 1(i)). A property is held at a revalued amount and was last revalued in 1994. In accordance with paragraph 80A of HKAS 16, "Property, plant and equipment", no further revaluation of the property is required.

Depreciation is calculated to write off the cost or valuation of fixed assets over their estimated useful lives using the straight line method as follows:

- Residential apartment	40 years
- Office buildings	50 years
- Leasehold improvements	5 to 10 years
- Furniture, fixtures and office equipment	4 to 5 years
- Motor vehicles	5 years

(l) Operating leases

Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases.

Where the Bank has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(m) Repossessed assets

In the recovery of impaired loans and advances, the Bank may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Bank is no longer seeking repayment from the borrower, repossessed assets are reported in "Other assets". The Bank does not hold the repossessed assets for its own use.

Repossessed assets are recorded at the lower of the amount of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in profit or loss.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income, in which case they are recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on the same taxable entity.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Bank has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Foreign currency transactions

Transactions in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

(q) Related parties

(1) A person, or a close member of that person's family, is related to the Bank if that person:

- (i) has control or joint control over the Bank;
- (ii) has significant influence over the Bank; or
- (iii) is a member of the key management personnel of the Bank or the Bank's parent.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(q) Related parties (continued)

(2) An entity is related to the Bank if any of the following conditions applies:

(i) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of the Bank of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank.

(vi) The entity is controlled or jointly-controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii)The entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or to the Bank's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(r) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Bank of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Bank. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) The Bank operates a defined contribution scheme. Contributions to a provident fund under the Occupational Retirement Scheme Ordinance are recognised as an expense in profit or loss as incurred.

The Bank also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

(iii) Termination benefits are recognised when, and only when, the Bank demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

2 Interest income calculated using the effective interest method and interest expense

	2018	2017
(a) Interest income calculated using the effective interest method arising from		
Trade bills and advances to customers	69,302,065	56,126,817
Placements with banks	2,111,495	2,816,173
Investments	12,840,954	11,326,312
	84,254,514	**70,269,302**
(b) Interest expense arising from		
Deposits from customers	21,111,904	17,194,661
Deposits and balances from banks	1,334,528	761,359
	22,446,432	**17,956,020**

3 Fee and commission income

	2018	2017
Fee and commission income	27,424,138	26,021,564

Fee and commission income in 2018 and 2017 mainly comprised fee and commission income from L/C bills and export bills.

4 Other net income

	2018	2017
Net gains from dealing in foreign currencies	9,765,603	10,580,526
Others	11,200,761	10,608,872
	20,966,364	**21,189,398**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

5 Operating expenses

	2018	2017
(a) Staff costs		
Salaries and other benefits	50,235,636	43,529,609
Contribution to defined contribution scheme	2,484,595	1,716,209
	52,720,231	**45,245,818**
(b) Depreciation	**4,244,518**	**4,074,406**
(c) Other operating expenses		
Premises and equipment expenses, excluding depreciation		
- rent and rates	1,374,365	1,368,161
- repairs and maintenance	555,074	386,104
Auditor's remuneration		
- audit services	1,088,620	1,017,080
- tax services	66,000	56,500
- other services	289,210	181,498
Others	18,963,435	15,770,752
	22,336,704	**18,780,095**
	79,301,453	**68,100,319**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

6 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2018	2017
Directors' fees	800,000	210,000
Salaries, allowances and benefits in kind	4,542,576	2,636,520
Deferred compensation	490,000	-
Discretionary bonuses	528,810	270,848
Retirement scheme contributions	263,286	162,509
Total	**6,624,672**	**3,279,877**

Note: The benefits in kind are in the form of provision of the Bank's residential apartment to a director.

7 Net charge of impairment allowances

	2018	2017
Trade bills and advances to customers	7,856,258	4,080,000
Cash and balances with banks	(228,143)	-
Placements with banks	(261,071)	-
Investments	43,502	-
Other financial assets	(55,239)	-
Loan commitments and financial guarantees issued	(237,697)	-
Net charge of impairment allowances	**7,117,610**	**4,080,000**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

8 Income tax in the statement of profit or loss and other comprehensive income

(a) Taxation charged to profit or loss:

	2018	2017
Current tax - Hong Kong profits tax		
Provision for the year	2,422,993	4,739,979
Over-provision in respect of prior years	(67,765)	(23,303)
	2,355,228	**4,716,676**
Deferred tax		
Origination and reversal of temporary differences	1,606,429	7,469
	3,961,657	**4,724,145**

The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2017-18 subject to a maximum reduction of $20,000 for each business (2017: a maximum reduction of $20,000 was granted for the year of assessment 2016-17 and was taken into account in calculating the provision for 2017).

(b) Reconciliation between tax expense charged to profit or loss and accounting profit at applicable tax rates:

	2018	2017
Profit before tax	**22,886,668**	**26,584,497**
Notional tax on profit before taxation, calculated at 16.5%	3,776,300	4,386,442
Tax effect of non-deductible expenses	253,122	361,006
Over-provision in respect of prior years	(67,765)	(23,303)
Actual tax expense charged to profit or loss	**3,961,657**	**4,724,145**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

9 Other comprehensive income

Tax effects relating to each component of other comprehensive income

	2018			2017		
	Before-tax amount	Tax charge (note 20(b))	Net-of-tax amount	Before-tax amount	Tax charge	Net-of-tax amount
Financial assets measured at FVOCI: net movement in FVOCI financial assets revaluation reserve	1,063,133	(175,417)	887,716	-	-	-
Available-for-sale financial assets: net movement in available-for-sale financial assets revaluation reserve	-	-	-	427,467	(70,532)	356,935

10 Cash and balances with banks

	2018	2017
Cash in hand	99,731	63,875
Balances with banks	207,051,465	185,906,201
Less: Impairment allowances		
-Stage 1	(70,631)	-
-Stage 2	-	-
-Stage 3	-	-
	207,080,565	**185,970,076**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

11 Placements with banks

	2018	2017
Placements with banks	**9,859,244**	**213,077,876**
Remaining maturity		
- within one month	3,242,322	73,372,583
- between one month and three months	6,619,847	92,773,907
- between three months and one year	-	46,931,386
Less: Impairment allowances		
- Stage 1	(2,925)	-
- Stage 2	-	-
- Stage 3	-	-
	9,859,244	**213,077,876**

12 Investments

	2018		
	Debt securities at fair valuethrough other comprehensive income	Debt securities at amortised cost	Total
Debt securities:			
- Listed in Hong Kong	114,837,673	81,631,052	196,468,725
- Listed outside Hong Kong	42,542,929	197,917,853	240,460,782
	157,380,602	279,548,905	436,925,507
- Unlisted	9,976,600	13,693,466	23,670,066
	167,357,202	**293,242,371**	**460,599,573**
Less: Impairment allowances			
- Stage 1	-	(57,229)	(57,229)
- Stage 2	-	-	-
- Stage 3	-	-	-
	-	(57,229)	(57,229)
Total debt securities	**167,357,202**	**293,185,142**	**460,542,344**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

12 Investments (continued)

	2017		
	Debt securities at fair valuethrough other comprehensive income	Debt securities at amortised cost	Total
Debt securities:			
- Listed in Hong Kong	25,075,187	122,472,822	137,548,009
- Listed outside Hong Kong	2,341,004	200,182,360	202,523,364
	27,416,191	322,655,182	350,071,373
- Unlisted	13,821,620	21,472,726	35,294,346
Total debt securities	**41,237,811**	**344,127,908**	**385,365,719**

13 Trade bills

(a) Trade bills less impairment:

	2018	2017
Gross trade bills	599,193,745	593,511,892
Less: Impairment allowances		
- Stage 1	(570,622)	-
- Stage 2	(326,718)	-
- Stage 3	(3,699,590)	-
- Individually assessed	-	(5,920,000)
- Collectively assessed	-	(5,786,582)
	594,596,815	**581,805,310**

(b) Impaired trade bills:

	2018	2017
	HK$	HK$
Gross impaired trade bills	12,692,485	6,797,855
Less: Impairment allowances		
- Stage 3	(3,699,590)	-
- Individually assessed	-	(5,920,000)
	8,992,895	**877,855**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

13 Trade bills (continued)

(c) Movement in impairment allowances on trade bills

	2018			
	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	476,233	1,144,066	5,920,000	7,540,299
Charged to income statement	94,389	(817,348)	4,607,419	3,884,460
Loans written off during the year as uncollectible	-	-	(6,827,829)	(6,827,829)
Recoveries	-	-	-	-
Unwind of discount on impairment allowances	-	-	-	-
Exchange difference	-	-	-	-
At 31 December 2018	**570,622**	**326,718**	**3,699,590**	**4,596,930**

Comparative information under HKAS 39:

	2017		
	Individually assessed	Collectively assessed	Total
At 1 January 2017	11,157,000	5,399,705	16,556,705
Charged to income statement	(1,041,364)	386,877	(654,487)
Loans written off during the year as uncollectible	(4,195,636)	-	(4,195,636)
Recoveries	-	-	-
At 31 December 2017	**5,920,000**	**5,786,582**	**11,706,582**

14 Advances to customers

(a) Advances to customers less impairment:

	2018	**2017**
Gross advances to customers	787,423,319	693,493,705
Less: Impairment allowances		
- Stage 1	(2,599,143)	-
- Stage 2	(13,085,222)	-
- Stage 3	(5,713,832)	-
- Individually assessed	-	(12,242,000)
- Collectively assessed	-	(6,555,000)
	766,025,122	**674,696,705**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

14 Advances to customers (continued)

(b) Impaired advances to customers:

	2018	2017
Gross impaired advances to customers	20,703,197	28,901,695
Less: Impairment allowances		
- Stage 3	(5,713,832)	-
- Individually assessed	-	(12,242,000)
	14,989,365	**16,659,695**

(c) Movement in impairment allowance on advances to customers

	2018			
	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	2,175,978	14,066,029	12,242,000	28,484,007
Charged to income statement	423,165	(980,807)	4,535,440	3,977,798
Loans written off during the year as uncollectible	-	-	(11,063,608)	(11,063,608)
Recoveries	-	-	-	-
Unwind of discount on impairment allowances	-	-	-	-
Exchange difference	-	-	-	-
At 31 December 2018	**2,599,143**	**13,085,222**	**5,713,832**	**21,398,197**

Comparative information under HKAS 39:

	2017		
	Individually assessed	Collectively assessed	Total
At 1 January 2017	12,066,000	5,297,000	17,363,000
Charged to income statement	3,476,487	1,258,000	4,734,487
Loans written off during the year as uncollectible	(3,300,487)	-	(3,300,487)
Recoveries	-	-	-
At 31 December 2017	**12,242,000**	**6,555,000**	**18,797,000**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

15 Fixed assets

	2018			
	Leasehold improvements	Buildings	Furniture, fixtures, office equipment and motor vehicles	Total
Cost or valuation:				
At 1 January 2018	9,022,788	129,209,411	14,796,866	153,029,065
Additions	-	-	835,117	835,117
Disposals/written off	-	-	(291,633)	(291,633)
At 31 December 2018	9,022,788	129,209,411	15,340,350	153,572,549
Representing:				
Cost	9,022,788	114,709,411	15,340,350	139,072,549
Valuation	-	14,500,000	-	14,500,000
	9,022,788	**129,209,411**	**15,340,350**	**153,572,549**
Aggregate depreciation:				
At 1 January 2018	7,865,317	25,765,766	13,247,845	46,878,928
Charge for the year	706,312	2,782,143	756,063	4,244,518
Written back on disposals	-	-	(263,788)	(263,788)
At 31 December 2018	**8,571,629**	**28,547,909**	**13,740,120**	**50,859,658**
Net book value:				
At 31 December 2018	**451,159**	**100,661,502**	**1,600,230**	**102,712,891**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

15 Fixed assets (continued)

	2017			
	Leasehold improvements	Buildings	Furniture, fixtures, office equipment and motor vehicles	Total
Cost or valuation:				
At 1 January 2017	8,652,788	129,209,411	14,065,726	151,927,925
Additions	370,000	-	1,164,572	1,534,572
Disposals/written off	-	-	(433,432)	(433,432)
At 31 December 2017	9,022,788	129,209,411	14,796,866	153,029,065
Representing:				
Cost	9,022,788	114,709,411	14,796,866	138,529,065
Valuation	-	14,500,000	-	14,500,000
	9,022,788	**129,209,411**	**14,796,866**	**153,029,065**
Aggregate depreciation:				
At 1 January 2017	7,170,886	22,983,623	13,083,445	43,237,954
Charge for the year	694,431	2,782,143	597,832	4,074,406
Written back on disposals	-	-	(433,432)	(433,432)
At 31 December 2017	**7,865,317**	**25,765,766**	**13,247,845**	**46,878,928**
Net book value:				
At 31 December 2017	**1,157,471**	**103,443,645**	**1,549,021**	**106,150,137**

The buildings are held in Hong Kong under a long term lease.

The Bank's residential apartment was purchased in 1984 for $1,362,270. It was revalued at $14,500,000 in 1994 on an open market value basis by an independent surveyor, Knight Frank Kan & Baillieu.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

16 Other assets

	2018	2017
Customer liabilities under acceptances	9,811,645	79,417,919
Interest receivable	10,305,961	4,130,586
Others	2,315,820	1,119,196
Less: Impairment allowances		
- Stage 1	(13,063)	-
- Stage 2	(19,891)	-
- Stage 3	-	-
	22,400,472	**84,667,701**

Included in other assets are intangible assets of $225,000 (2017: $225,000) relating to club debentures held by the Bank. There has been no impairment of intangible assets in either the current or preceding year.

17 Deposits and balances from banks

	2018	2017
Deposits and balances from banks	6,195,755	29,689,647

18 Deposits from customers

	2018	2017
Staff provident fund	$55,298,716	$53,823,338
Time and call deposits	1,272,836,120	1,183,526,272
	1,328,134,836	**1,237,349,610**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

19 Other liabilities

	2018	2017
Acceptances outstanding	9,811,645	79,417,919
Interest payable	6,608,582	4,629,472
Imprest accounts	227,224,235	262,353,296
Margin on L/Cs and trade bills	32,265,742	61,987,061
Interest received in advance	509,029	108,490
Others	3,825,326	4,306,511
Add: Impairment allowances of loan commitments and financial guarantees issued		
- Stage 1	33,442	-
- Stage 2	501	-
- Stage 3	38,876	-
	280,317,378	**412,802,749**

20 Income tax in the statement of financial position

(a) Current taxation in the statement of financial position represents:

	2018	2017
Provision for Hong Kong profits tax for the year	2,422,993	4,739,979
Provisional profits tax paid	(4,537,214)	(3,487,646)
	(2,114,221)	**1,252,333**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

20 Income tax in the statement of financial position (continued)

(b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities recognised in the statement of financial position and the movements during the year are as follows:

	2018					
	Differences between depreciation allowances and related depreciation	Revaluation of properties	Stage 3 ECL 2017 individual impairment allowance for bad and doubtful debts	Stages 1 and 2 ECL (2017 collective impairment allowance for bad and doubtful debts)	Fair value reserve	Total
At 1 January 2018, as previously reported	(681,976)	1,855,217	(2,996,730)	(2,036,361)	(233,605)	(4,093,455)
Adjustment on initial application of HKFRS 9 - Credited to retained earnings	-	-	-	(821,732)	-	(821,732)
At 1 January 2018, as restated	(681,976)	1,855,217	(2,996,730)	(2,858,093)	(233,605)	(4,915,187)
Charged/(credited) to income statement		(86,166)		-		1,443,515
Credited to other comprehensive income	-	-	-	-	175,417	175,417
At 31 December 2018	**(768,142)**	**1,855,217**	**(1,553,215)**	**(2,609,013)**	**(58,188)**	**(3,133,341)**
At 1 January 2017	(764,170)	1,855,217	(3,193,410)	(1,764,956)	(304,137)	(4,171,456)
Charged/(credited) to statement of profit or loss and other comprehensive income	82,194	-	196,680	(271,405)	-	7,469
(Credited)/charged to available-for-sale financial assets revaluation reserve (note 9)	-	-	-	-	70,532	70,532
At 31 December 2017	**(681,976)**	**1,855,217**	**(2,996,730)**	**(2,036,361)**	**(233,605)**	**(4,093,455)**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

21 Material related party transactions

(a) Transactions with other related parties

During the year, the Bank entered into transactions with related parties in the ordinary course of business including the taking and placing of inter-bank deposits. These transactions were priced at relevant market rates at the time of each transaction.

The amounts included in the financial statements arising from transactions with related parties are as follows:

	Parent company		Fellow subsidiaries		Affiliates		Key management personnelt	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Commission rebate	-	-	-	-	1,040,545	1,422,705	-	-
Interest income	-	-	-	-	164,486	117,273	-	-
Interest expenses	-	517,525	-	-	29,568	-	-	-
IT maintenance	4,429,291	3,881,076	-	-	-	-	-	-
Other services	2,289,580	2,053,308	-	-	-	-	-	-
Staff Provident Fund expense	-	-	-	-	2,484,595	1,716,209	-	-
Cash and balances with banks	1,514,020	2,283,923	23,983,896	2,035,286	8	-	-	-
Deposits and balances from banks	3,839,580	7,796,879	78,750	70,427	2,160,351	21,822,341	11,338,220	-
Time and call deposits	-	-	-	-	-	-	-	11,389,496
Imprest accounts	-	-	-	-	-	-	222,922-	190,420
Staff Provident Fund deposit	-	-	-	-	55,298,715	53,823,338	-222,922	-

The aggregate unsecured facilities granted to connected parties who are (i) individuals did not exceed $1,000,000 per person or 5% of the capital base and (ii) firms, partnerships or non-listed companies (as specified in section 83(4) of the Banking Ordinance) did not exceed 10% of the capital base. The maximum aggregate unsecured facilities to all connected parties did not exceed 10% of the capital base. The secured lending to connected parties follows the supervisory policy manual on connected lending (CR-G-9) clause 2.5 issued by the HKMA.

The Bank has entered into an agreement with its parent company for the provision of banking software and related IT services.

(b) Key management personnel remuneration

	2018	**2017**
Short-term employee benefits	12,187,316	9,668,360
Post-employment benefits	570,495	425,817
	12,757,811	**10,094,177**

Total remuneration is included in staff costs (see note 5(a)).

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

22 Loans to directors and entities connected with directors

Loans to directors of the Bank and entities connected with directors disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2018	2017
Loans made by a third party under a guarantee given by the Bank	-	-
Loans made by the Bank	**-**	**-**

23 Share capital

	2018		2017	
	No. of shares (000)		No. of shares (000)	
Ordinary shares issued and fully paid:				
At 1 January and 31 December	3,000	300,000,000	3,000	300,000,000

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the company do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

24 Reserves and dividends

(a) Nature and purpose of reserves

(i) Fair value through other comprehensive income

The fair value through other comprehensive income financial assets revaluation reserve comprises the cumulative net change in the fair value of debt securities measured at fair value through other comprehensive income (2017: available-for-sale financial assets) until the assets are derecognised or reclassified. This amount is increased by the amount of loss allowance.

(ii) Property revaluation reserve

The revaluation reserve has been set up and dealt with in accordance with the accounting policies adopted for land and buildings held for own use in note 1(i). The revaluation reserve is not available for distribution to shareholders.

24 Reserves and dividends (continued)

(a) Nature and purpose of reserves (continued)

(iii) Regulatory reserve
The regulatory reserve is an appropriation from retained earnings and is maintained for the purpose of paragraph 9 of the Seventh Schedule to the Hong Kong Banking Ordinance to set aside amounts in respect of losses which the Bank will or may incur on loans and advances in addition to impairment losses recognised under HKFRS 9, "Financial instruments". Transfer to and from the regulatory reserve are made directly through retained earnings and not the statement of comprehensive income.

(b) Distributability of reserves
At 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Bank was $226,867,770 (2017: $228,671,080).

(c) Dividends

	2018	2017
Final dividend in respect of the current financial year proposed after the end of reporting period of $5 per ordinary share (2017: $5.00 per ordinary share)	**15,000,000**	**15,000,000**

The dividend proposed after the end of reporting period has not been recognised as a liability at the end of reporting period.

	2018	2017
Final dividend in respect of the previous financial year, approved and paid during the year, of $5 per ordinary share (2017: $4.00 per ordinary share)	**15,000,000**	**12,000,000**

25 Assets pledged as security

The following assets have been pledged as collateral.

	2018	2017
Balances with banks	1,191,819	204,265
Investments	86,924,203	69,031,477
	88,116,022	**69,235,742**

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

26 Contingent assets, liabilities and commitments

(a) Contingent assets, liabilities and commitments to extend credit

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	2018	2017
Trade-related contingencies	**273,234,748**	**355,798,715**
Credit risk weighted amounts	**42,274,957**	**51,257,571**

Contingent liabilities and commitments are credit-related instruments which include letters of credit, confirmation of letters of credit, guarantees and commitments to extend credit. The risk involved in these credit-related instruments is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows. The risk weights used in the computation of credit risk weighted amounts range from 0% to 100%.

(b) Lease commitments

The total future minimum lease payments in respect of IT services and properties under non-cancellable operating leases are payable as follows:

	2018	2017
Within 1 year	250,004	471,111
After 1 year but within 5 years	-	73,800
	250,004	**544,911**

27 Ultimate and immediate holding company

As at 31 December 2018, the directors consider the bank's immediate parent to be Habib Bank AG Zurich and ultimate holding company to be Gefan Finanz AG. Both the parent and ultimate holding company are incorporated in Switzerland.

28 Financial risk management

This section presents information about the Bank's exposure to and its management and control of risks, in particular, the primary risks associated with its use of financial instruments:

- credit risk: loss resulting from customer or counterparty default and arises on credit exposure in all forms, including settlement risk.
- market risk: exposure to market variables such as interest rates and exchange rates.
- liquidity and funding risk: the risk that the Bank is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured, basis at an acceptable price to fund actual or proposed commitments.
- operational risk: risk arising from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputational loss.

The Bank has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and to devise controls, and to monitor such risks and limits continually by means of reliable and up-to-date management and information systems. The Bank continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Introduction of new products and systems is approved by the Board of Directors after proper risk assessment. The internal auditors also perform regular audits to ensure compliance with the policies and procedures.

(a) Credit risk

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from lending, trade finance, derivatives and other activities.

The Bank has policies and procedures in place to ensure that credit risk is properly addressed and managed at the transaction and portfolio levels. The Board of Directors formulates and updates the credit policies. The Bank's credit policies define credit extension criteria, credit sanctions, review and monitoring mechanisms, and the loan classification and provisioning policy.

To avoid large financial risk, the exposure to a single borrower or group of related borrowers is limited to a percentage of the capital base. Country risk concentration is managed by setting up country exposure limits and emphasising wide geographical spread of export markets.

The Credit Committee, chaired by the Chief Executive, monitors compliance with statutory and internal limits on credit exposures. The internal auditor carries out regular audits to ensure compliance with the stated policies and procedures. To strengthen the independence of the audit function, the internal auditor of the Bank reports directly to the Audit Committee.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(a) Credit risk (continued)

(A) Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments (2017: available-for-sale debt assets).

Unless specifically indicated, for financial assets, the amounts in the table represent net carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms "Stage 1", "Stage 2" and "Stage 3" is included in Note 1(f)(vii).

(i) Credit quality of trade bills and advances to customers

The following table sets out information about the credit quality of trade bills and advances to customers. The amounts in the table represent net carrying amount.

	2018				2017
Trade bills at amortised cost	Stage 1	Stage 2	Stage 3	Total	Total
Pass	563,933,588	5,189,590	-	569,123,178	582,743,444
Special Mention	-	17,378,082	-	17,378,082	3,970,593
Substandard	-	-	12,692,485	12,692,485	-
Doubtful	-	-	-	-	6,797,855
Loss	-	-	-	-	-
Loss Impairment allowances	(570,622)	(326,718)	(3,699,590)	(4,596,930)	(11,706,582)
Carrying amount	**563,362,966**	**22,240,954**	**8,992,895**	**594,596,815**	**581,805,310**

	2018				2017
Advances to customers at amortised cost	Stage 1	Stage 2	Stage 3	Total	Total
Pass	642,480,014	35,426,775	-	677,906,789	628,524,405
Special Mention	-	88,813,333		88,813,333	36,067,605
Substandard	-	-	19,837,923	19,837,923	15,264,366
Doubtful	-	-	865,274	865,274	13,637,329
Loss	-	-	-	-	-
Loss Impairment allowances	(2,599,143)	(13,085,222)	(5,713,832)	(21,398,197)	(18,797,000)
Carrying amount	**639,880,871**	**111,154,886**	**14,989,365**	**766,025,122**	**674,696,705**

	2018				2017
Trade bills at amortised cost – gross carrying amount	Stage 1	Stage 2	Stage 3	Total	Total
Current	530,777,520	21,668,384	4,846,863	557,292,767	528,395,936
Overdue < 30 days	33,156,068	650,264	3,557,729	37,364,061	43,791,155
Overdue > 30 days	-	249,024	4,287,893	4,536,917	21,324,801
Total	**563,933,588**	**22,567,672**	**12,692,485**	**599,193,745**	**593,511,892**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(a) Credit risk (continued)

(A) Credit quality analysis (continued)

(i) Credit quality of trade bills and advances to customers (continued)

	2018				2017
Advances to customers at amortised cost – gross carrying amount	Stage 1	Stage 2	Stage 3	Total	Total
Current	610,875,198	99,643,556	13,012,568	723,531,322	616,819,667
Overdue < 30 days	31,604,8156	13,162,1032	3,147,368	47,914,286	36,662,378
Overdue > 30 days	-	11,434,450	4,543,261	15,977,711	40,011,660
Total	**642,480,0134**	**124,240,1098**	**20,703,197**	**787,423,319**	**693,493,705**

(ii) Credit quality of other financial assets
The following table sets out information about the credit quality of other financial assets. The amounts in the table represent gross carrying amount.

	2018				2017
Cash and balances with banks at amortised cost	Stage 1	Stage 2	Stage 3	Total	Total
Pass	207,151,196	-	-	207,151,196	185,970,076
Special Mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Impairment allowances	(70,631)	-	-	(70,631)	-
Carrying amount	207,080,565	-	-	207,080,565	185,970,076

As at 31 December 2018, there were no overdue or impaired cash and balances with banks (2017: Nil).

	2018				2017
Placements with banks at amortised cost	Stage 1	Stage 2	Stage 3	Total	Total
Pass	9,862,169	-	-	9,862,169	213,077,876
Special Mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Impairment allowances	(2,925)	-	-	(2,925)	-
Carrying amount	9,859,244	-	-	9,859,244	213,077,876

As at 31 December 2018, there were no overdue or impaired placements with banks (2017: Nil).

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(a) Credit risk (continued)

(A) Credit quality analysis (continued)

(ii) Credit quality of other financial assets (continued)

	2018				2017
Debt investments at amortised cost (2017: Held-to-maturity debt investments)	Stage 1	Stage 2	Stage 3	Total	Total
AAA	-	-	-	-	-
AA+ to AA-	-	-	-	-	-
A+ to A-	136,615,620	-	-	136,615,620	139,687,409
BBB+ to BBB-	156,626,751	-	-	156,626,751	204,440,499
Unrated	-	-	-	-	-
Impairment allowances	(57,229)	-	-	(57,229)	-
Carrying amount	293,185,142	-	-	293,185,142	344,127,908

	2018				2017
Debt investments at FVOCI (2017: Available-for-sale debt investments)	Stage 1	Stage 2	Stage 3	Total	Total
AAA	-	-	-	-	-
AA+ to AA-	17,763,051	-	-	17,763,051	-
A+ to A-	101,036,346	-	-	101,036,346	11,758,604
BBB+ to BBB-					
Unrated	48,557,805	-	-	48,557,805	29,479,207
Carrying amount	167,357,202	-	-	167,357,202	41,237,811
Impairment allowances	54,122	-	-	54,122	-

As at 31 December 2018, there were no overdue or impaired debt investments (2017: Nil).

	2018				2017
Other financial assets at amortised cost	Stage 1	Stage 2	Stage 3	Total	Total
Pass	19,447,885	669,721	-	20,117,606	89,976,656
Special Mention	-	-	-	-	1,178,721
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Impairment allowances	(13,063)	(19,891)	-	(32,954)	-
Carrying amount	19,434,822	649,830	-	20,084,652	91,155,377

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(a) Credit risk (continued)

(A) Credit quality analysis (continued)

The following table shows an analysis of counterparty credit exposures arising from derivative transactions

	Over-the-counter	
In HK$	Notional amount	Fair value
2018		
Derivative assets	109,613,269	109,661,874
Derivative liabilities	109,613,269	109,810,089
2017		
Derivative assets		
Derivative liabilities		

(iii) Trade bills and advances to customers overdue but not impaired

The gross amount of trade bills and advances to customers overdue but not impaired is analysed as follows:

	2018					
	Overdue for less than 1 month	Overdue for three months or less but over 1 month	Overdue for six months or less but over three months	Overdue for one year or less but over six months	Overdue for over one year	Total
Advances to customers	44,766,918	11,434,450	-	-	-	56,201,368
Trade bills	33,806,332	249,024	-	-	-	34,055,356
	78,573,250	**11,683,474**	**-**	**-**	**-**	**90,256,724**

	2017					
	Overdue for less than 1 month	Overdue for three months or less but over 1 month	Overdue for six months or less but over three months	Overdue for one year or less but over six months	Overdue for over one year	Total
Advances to customers	36,662,378	17,846,655	308,738	-	-	54,817,771
Trade bills	43,791,155	14,522,291	-	-	-	58,313,446
	80,453,533	**32,368,946**	**308,738**	**-**	**-**	**113,131,217**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(a) Credit risk (continued)

(A) Credit quality analysis (continued)

(iv) Impaired advances to customers and trade bills

Advances to customers and trade bills individually identified to be impaired are analysed as follows:

	2018		2017	
	Gross advances	Market value of collateral	Gross advances	Market value of collateral
Advances to customers	20,703,197	14,138,000	28,901,695	15,810,000
Impairment allowances made in respect of advances to customers	5,713,832		12,242,000	

	2018	2017
Current market value of collateral held against the covered portion of advances to customers	14,138,000	15,810,000
Covered portion of advances to customers	12,297,533	14,617,405
Uncovered portion of advances to customers	8,405,664	14,284,290

The impairment allowances were made after taking into account the value of collateral in respect of advances to customers.

Classified or impaired advances to customers are analysed as follows:

	2018	2017
Gross classified or impaired advances to customers	20,703,197	28,901,695
Gross classified or impaired advances to customers as a percentage of gross advances to customers	2.63%	4.17%
Individually assessed impairment allowances made in respect of advances to customers	5,713,832	12,242,000

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(a) Credit risk (continued)

(A) Credit quality analysis (continued)

(iv) Impaired advances to customers and trade bills (continued)

	2018		2017	
	Gross trade bills	Market value of collateral	Gross trade bills	Market value of collateral
Trade bills	12,692,485	6,081,790		6,797,855
Impairment allowances made in respect of trade bills	3,699,590			5,920,000

	2018	2017
Current market value of collateral held against the covered portion of trade bills	6,081,790	-
Covered portion of trade bills	6,081,790	-
Uncovered portion of trade bills	6,610,695	6,797,855

The impairment allowances were made after taking into account the value of collateral in respect of trade bills.

Classified or impaired trade bills are analysed as follows:

	2018	2017
Gross classified or impaired trade bills	12,692,485	6,797,855
Gross classified or impaired trade bills as a percentage of gross trade bills	2.12%	1.15%
Individually assessed impairment allowances made in respect of advances to customers	3,699,590	5,920,000

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(a) Credit risk (continued)

(B) Concentration risk

Maximum exposure to credit risk before collateral held or other credit enhancement

The maximum exposure to credit risk at the end of the reporting period without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	2018	2017
Cash and balances with banks	207,080,565	185,970,076
Placements with banks	9,859,244	213,077,876
Investments	460,542,344	385,365,719
Trade bills	594,596,815	581,805,310
Advances to customers	766,025,122	674,696,705
Other assets	22,400,472	84,667,701
	2,060,504,562	**2,125,583,387**

Maximum exposure to credit risk relating to items unrecorded in the statement of financial position are as follows:

	2018	2017
Direct credit substitutes	-	-
Trade-related contingencies	273,234,748	355,798,715
Commitments excluding those that are unconditionally cancellable without prior notice	-	-
	273,234,748	**355,798,715**

28 Financial risk management (continued)

(a) Credit risk (continued)

(C) Collateral held and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Trade bills and advances to customers

The general creditworthiness of a commercial / small and medium enterprises ("SME") customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that the borrowers provide it. The Bank may take collateral in the form of mortgages over property and cash deposits.

The valuation of collateral is updated during the review or enhancement process. For credit-impaired loans, the Bank obtains appraisals of collateral because it provides input into determining the management credit risk actions.

At 31 December 2018, the net carrying amount of credit-impaired trade bills and advances to customers amounted to HKD 33.4 million (2017: HKD 35.7 million) and the value of identifiable collateral (mainly residential and commercial properties) held against those trade bills and advances to customers amounted to HKD 18.4 million (2017: HKD 14.6 million).

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Trade bills and advances to customers

- Default on a single facility amounts to default on all facilities belonging to the same customer, with the first default event considered as the "default date".
- Customers with facilities that have closed during the performance period are considered to be performing unless they are tagged as "for adjustment purpose" ("FAP") 11 – 13 or have days past due exceeding 89 days during the performance period.
- Since the "write-off date" is provided as at year end, it is assumed to be the last day of the reporting period.
- Customers with a "write-off date" are assumed to have obtained write-off status due to non-performance and are transferred to default status on "settlement date".
- In instances where the "maturity date" exceeds the "write-off date", the date of closure is considered to be the 'write off date'.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The Bank's business model is relationship-based lending in which the customer is evaluated and monitored as a single entity. Hence, weaknesses evident in an account is considered relevant for the entire customer portfolio.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. It is defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The FAP tag is used to identify such accounts. FAP tag 11 to 13 are used to indicate non-performing accounts. Performance of non-performing accounts may differ significantly due to different judgmental criteria used to tag each individual account.

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Credit risk grades (continued)

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Commercial / SME exposures	All exposures
- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. - Data from credit reference agencies, press articles, changes in external credit ratings. - Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	- Payment record – this includes overdue status as well as a range of variables about payment ratios - Utilisation of the granted limit - Existing and forecast changes in business, financial and economic conditions

Generating the term structure of probability of default ("PD")

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modelling, the remaining lifetime PD is determined to have increased by more than a predetermined range.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. Such qualitative factors are based on its expert judgment and relevant historical experiences.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due or, for certain types of exposure, more than 15 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

Definition of Default

The Bank considers a financial asset to be in default when

- The borrower is more than 90 days past due on contractual payments; or
- The borrower has been tagged as FAP 11, 12 or 13 based on observed payment delays or early warning indicators detected by the Country Credit function's portfolio monitoring activities.

While developing the model, an "ever default" definition has been employed in order to capture all accounts obtaining default status over a twelve-month period, regardless of whether the account ceases to be in default at the end of the period.

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Incorporation of forward-looking information

The economic scenarios used as at 31 December 2018 included the following key indicators for the years ending 31 December 2019 to 2023.

Year	Real GDP (National currency)	Total Investment (% of GDP)
2019	2,574.63	21.9%
2020	2,641.85	22.3%
2021	2,723.89	21.7%
2022	2,813.03	21.3%
2023	2,889.20	21.3%

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime probability of default ("PD") at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.
- When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. This is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Modified financial assets (continued)

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The Bank's Credit Committee regularly reviews the performance of the borrower.

For modified financial assets, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, this is a qualitative indicator of a significant increase in credit risk and an expectation that may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default ("PD");
- loss given default ("LGD"); and
- exposure at default ("EAD").

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Measurement of ECL (continued)

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments and financial guarantees, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

Loss allowance reconciliation

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: Stage 1 ECL, Stage 2 ECL and Stage 3 ECL are included in note 1(f)(vii).

	2018			
Advances to customers	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Total
Balance at 1 January	2,175,978	14,066,029	12,242,000	28,484,007
Transfer to Stage 1 ECL	-	-	-	-
Transfer to Stage 2 ECL	-	-	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	3,915,567	12,748,896	4,546,441	21,210,904
Financial assets that have been derecognised	(3,492,402)	(13,729,703)	(11,001)	(17,233,106)
Write-offs	-	-	(11,063,608)	(11,063,608)
Changes in models	-	-	-	-
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
Balance at 31 December	**2,599,143**	**13,085,222**	**5,713,832**	**21,398,197**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

Loss allowance reconciliation (continued)

	2018			
Trade bills	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Total
Balance at 1 January	476,233	1,144,066	5,920,000	7,540,299
Transfer to Stage 1 ECL	-	-	-	-
Transfer to Stage 2 ECL	-	-	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	502,040	100,939	4,607,419	5,210,398
Financial assets that have been derecognised	(407,651)	(918,287)	-	(1,325,938)
Write-offs	-	-	(6,827,829)	(6,827,829)
Changes in models	-	-	-	-
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
Balance at 31 December	**570,622**	**326,718**	**3,699,590**	**4,596,930**

	2018			
Investments measured at amortised cost	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Total
Balance at 1 January	58,085	-	-	58,085
Transfer to Stage 1 ECL	-	-	-	-
Transfer to Stage 2 ECL	-	-	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	-	-	-	-
Financial assets that have been derecognised	(856)	-	-	(856)
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
Balance at 31 December	**57,229**	-	-	**57,229**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

Loss allowance reconciliation (continued)

	2018			
Investments measured at FVOCI	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Total
Balance at 1 January	9,7643	-	-	9,7643
Transfer to Stage 1 ECL	-	-	-	-
Transfer to Stage 2 ECL	-	-	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	44,3598	-	-	44,3589
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
Balance at 31 December	**54,122**	-	-	**54,122**

	2018			
Cash and balances with banks	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Total
Balance at 1 January	298,774	-	-	298,774
Transfer to Stage 1 ECL	-	-	-	-
Transfer to Stage 2 ECL	-	-	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	34,808	-	-	34,808
Financial assets that have been derecognised	(262,951)	-	-	(262,951)
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
Balance at 31 December	**70,631**	-	-	**70,631**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

Loss allowance reconciliation (continued)

	2018			
Placements with banks	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Total
Balance at 1 January	263,996	-	-	263,996
Transfer to Stage 1 ECL	-	-	-	-
Transfer to Stage 2 ECL	-	-	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	1,753	-	-	1,753
Financial assets that have been derecognised	(262,824)	-	-	(262,824)
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
Balance at 31 December	**2,925**	**-**	**-**	**2,925**

	2018			
Other financial assets	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Total
Balance at 1 January	56,014	32,179	-	88,193
Transfer to Stage 1 ECL	-	-	-	-
Transfer to Stage 2 ECL	-	-	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	48,319	-	-	48,319
Financial assets that have been derecognised	(91,270)	(12,288)	-	(103,558)
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
Balance at 31 December	**13,063**	**19,891**	**-**	**32,954**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

Loss allowance reconciliation (continued)

	2018			
Loan commitments and financial guarantees issued	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Total
Balance at 1 January	49,96970	260,547	-	310,5167
Transfer to Stage 1 ECL	-	-	-	-
Transfer to Stage 2 ECL	-	-	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	69,8876	501	38,876	109,2643
Financial assets that have been derecognised	(86,414)	(260,547)	-	(346,961)
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
Balance at 31 December	**33,442**	**501**	**38,876**	**72,819**

To mitigate credit risk, the Bank enters into netting arrangements with counterparties. Netting arrangements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis. Except for the event of default, all outstanding transactions with the counterparty are settled on a gross basis and generally do not result in offsetting the assets and liabilities in the statement of financial position.

		2018			2017		
	Note	Gross amounts of financial instruments in the statement of financial position	Related financial instruments that have not been offset in the statement of financial position	Net amount	Gross amounts of financial instruments in the statement of financial position	Related financial instruments that have not been offset in the statement of financial position	Net amount
		’000	’000	’000	’000	’000	’000
Financial assets							
Trade bills	13(a)	599,194	96,655	502,539	593,512	106,677	486,835
Advances to customers	14(a)	787,423	159,556	627,867	693,494	162,228	531,266
		1,386,617	**256,211**	**1,130,406**	**1,287,006**	**268,905**	**1,018,101**
Financial liabilities							
Deposit from customers	18	1,328,135	206,347	1,121,788	1,237,350	206,477	1,030,873
Imprest and margin accounts	19	259,490	49,864	209,626	324,340	62,428	261,912
		1,587,625	**256,211**	**1,331,414**	**1,561,690**	**268,905**	**1,292,785**

28 Financial risk management (continued)

(b) Market risk management

Market risk is the risk that movements in interest rates or foreign exchange rates will result in losses in on and off balance sheet positions.

The principal derivative instruments used by the Bank are foreign exchange rate contracts for hedging positions arising from commercial transactions.

The Bank's policy is to take no proprietary trading positions. The Bank does not engage in speculative trading activities, and hence it is not exposed to market risk arising from the trading book.
The Bank has been exempted under section 22(1) of the Banking (Capital) Rules from the calculation of market risk under section 17.

(i) Currency risk

Currency risk is the risk to earnings or capital emanating from the movement of foreign exchange rates. Foreign exchange exposures originate mainly from the trade finance business. The risk thereof has been largely eliminated by consciously devising policies that expressly prohibit speculation in currencies and mandate that trade finance related currency transactions are covered simultaneously and aggregate open positions exceeding amount equivalent to US$1 million cannot be left overnight in currencies other than US$. All exposures are managed by the Finance Department on a daily basis and reviewed periodically by the Asset and Liability Management Committee.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(b) Market risk management (continued)

(i) Currency risk (continued)

Foreign exchange exposures arising from non-trading and structural positions, with an individual currency constituting 10% or more of the total net position in all foreign currencies, are shown as follows:

	2018			2017		
	Total	United States Dollars	Other foreign currencies	Total	United States Dollars	Other foreign currencies
In thousands of HKD equivalents						
Assets						
Cash and balances with banks	102,986	85,235	17,751	77,463	5,836	71,627
Placements with banks	9,862	-	9,862	18,078	-	18,078
Investments	384,670	384,670	-	385,384	385,384	-
Trade bills	599,194	595,019	4,175	593,512	581,372	12,140
Advances to customers	463,126	440,368	22,758	438,491	431,882	6,609
Other assets	9,812	9,812	-	79,425	79,425	-
Spot assets	**1,569,650**	**1,515,104**	**54,546**	**1,592,353**	**1,483,899**	**108,454**
Liabilities						
Deposits and balances of banks	(5,690)	(5,573)	(117)	(29,480)	(29,480)	-
Deposits from customers	(1,196,084)	(1,164,177)	(31,907)	(1,138,255)	(1,082,982)	(55,273)
Other liabilities	(253,735)	(233,518)	(20,217)	(387,645)	(334,896)	(52,749)
Spot liabilities	**(1,455,509)**	**(1,403,268)**	**(52,241)**	**(1,555,380)**	**(1,447,358)**	**(108,022)**
Forward purchases	1,795	1,653	142	-	-	-
Forward sales	(109,472)	(107,819)	(1,653)	-	-	-
	(107,677)	(106,166)	(1,511)	-	-	-
Net non-structural position	**6,464**	**5,670**	**794**	**36,973**	**36,541**	**432**

The Bank does not trade in foreign currencies, nor takes any other exposures on account of its clients. The Bank's foreign currency transactions primarily relate to discounting of foreign currency export and import bills. The exchange positions arising from trade bills as well as customers' foreign currency deposit-related transactions are covered in the local market. From time to time the Bank enters into foreign exchange forward transactions to mitigate currency risk. Details of such transactions appear in the above table.

As the majority (95%) of the Bank's financial instruments at 31 December 2018 and 2017 were denominated in either Hong Kong dollars ("HK$") or United States dollars ("US$") and the US$ is pegged to the HK$, management does not consider there to be any significant currency risk associated with them.

28 Financial risk management (continued)

(b) Market risk management (continued)

(ii) Interest rate risk

The Bank's interest rate risk positions arise from trade finance, lending and deposit taking activities. Interest rate risk primarily results from the timing difference in the repricing of interest-bearing assets and liabilities. It also relates to positions from non-interest bearing liabilities including shareholders' funds, as well as from certain fixed rate trade finance transactions and liabilities.

The Bank monitors interest rate movements by applying a weighting to assets and liabilities on the statement of financial position. Management monitors the weighted average rates on deposits, lending and placements to identify any mismatched exposures and alters the interest rate strategy accordingly. Interest bearing deposits from customers are for a fixed maturity mostly for a three month period and are generally utilised for a similar period. Surplus liquidity is placed in the interbank market and investments. A greater portion of the loans and trade advances is repriceable on a per-transaction basis. Hence the risk element is contained swiftly and the magnitude of the risk posed by interest rates movement is low.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(b) Market risk management (continued)

(ii) Interest rate risk (continued)

	2018						
Interest sensitivity of assets and liabilities	Effective interest rate	Total	3 months or less	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
In thousands of HKD equivalents							
Assets							
Cash and balances with banks	-	207,081	-	-	-	-	207,081
Placements with banks	2.03%	9,859	9,86259	-	-	-	(3)
Investments	2.84%	460,543	34,482	152,691	273,427	-	(57)
Trade bills	5.36%	594,597	518,063	81,131	-	-	(4,597)
Advances to customers	5.12%	766,025	553,875	91,752	141,796	-	(21,398)
Tax paid in advance	-	2,114	-	-	-	-	2,114
Deferred tax assets	-	3,133	-	-	-	-	3,133
Fixed assets	-	102,713	-	-	-	-	102,713
Other assets	-	22,400	-	-	-	-	22,400
Total assets		**2,168,465**	**1,116,282**	**325,574**	**415,223**	**-**	**311,386**
Liabilities							
Deposits and balances of banks	-	6,196	-	-	-	-	6,196
Deposits from customers	1.67%	1,328,135	875,960	437,725	14,450	-	-
Current taxation	-	-	-	-	-	-	-
Other liabilities	-	280,317	-	-	-	-	280,317
Total liabilities		**1,614,648**	**875,960**	**437,725**	**14,450**	**-**	**286,513**
Net Re-Pricing gap		**553,817**	**240,3223**	**(112,1512)**	**400,773**	**-**	**24,873**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(b) Market risk management (continued)

(ii) Interest rate risk (continued)

	2017						
Interest sensitivity of assets and liabilities	Effective interest rate	Total	3 months or less	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
In thousands of HKD equivalents							
Assets							
Cash and balances with banks	-	185,970	-	-	-	-	185,970
Placements with banks	1.06%	213,078	166,146	46,932	-	-	-
Investments	2.69%	385,366	23,469	89,542	272,355	-	-
Trade bills	4.71%	581,805	491,770	101,742	-	-	(11,707)
Advances to customers	4.75%	674,697	536,658	45,717	111,119	-	(18,797)
Tax paid in advance	-	-	-	-	-	-	-
Deferred tax assets	-	4,093	-	-	-	-	4,093
Fixed assets	-	106,150	-	-	-	-	106,150
Other assets	-	84,668	-	-	-	-	84,668
Total assets		**2,235,827**	**1,218,043**	**283,933**	**383,474**	**-**	**350,377**
Liabilities							
Deposits and balances of banks	-	$29,689	-	-	-	-	29,689
Deposits from customers	1.37%	1,237,350	805,520	424,270	7,560	-	-
Current taxation	-	1,252	-	-	-	-	1,252
Other liabilities	-	412,803	-	-	-	-	412,803
Total liabilities		**1,681,094**	**805,520**	**424,270**	**7,560**	**-**	**443,744**
Net Re-Pricing gap		**554,733**	**412,523**	**(140,337)**	**375,914**	**-**	**(93,367)**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(b) Market risk management (continued)

(ii) Interest rate risk (continued)

At 31 December 2018, it is estimated that a general increase/decrease of 50 basis points in interest rates (2017: 50 basis points in interest rates), with all other variables held constant, would not significantly impact the Bank's profit after taxation (2017: not significant impact).

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred at end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonable possible change in interest rates over the period until the next annual reporting date.

(c) Liquidity risk management

Liquidity relates to the ability of a company to meet its obligations as they fall due.

The Bank manages the liquidity structure of its assets, liabilities and commitments so as to ensure that liquidity sources match funding needs and that the statutory liquidity ratio is complied with. The Bank's average liquidity maintenance ratio in 2018 of 85.29% (2017: liquidity maintenance ratio of 90.28%) was well above the statutory minimum ratio of 25%.

The finance department reviews the current and prospective funding requirements for all operations through monitoring of the liquidity maintenance ratio and the maturity mismatch profile. Liquidity risk is managed by holding sufficient liquid assets (e.g. cash and short term funds) of appropriate quality to ensure that short term funding requirements are covered within prudent limits. Customer deposits form a significant part of the Bank's overall funding and they have remained relatively diversified and stable. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business. The Asset and Liability Management Committee measures the liquidity and adequacy of funds periodically and evaluates the overall risks and mitigation. The Committee also manages the funds and investments within the internal and regulatory framework.

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(c) Liquidity risk management (continued)

Analysis of non derivative assets and liabilities by remaining maturity
The following maturity profile is based on the remaining period at the end of reporting period to the contractual maturity date.

	2018							
	Total	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Indefinite
Assets								
Cash and balances with banks	207,081	207,081	-	-	-	-	-	-
Placements with banks	9,859	-	3,241	6,618	-	-	-	-
Investments	460,543	-	15,668	18,810	152,672	273,393	-	-
Trade bills	594,597	50,726	167,349	295,512	81,010	-	-	-
Advances to customers	766,025	62,353	144,494	330,282	89,924	138,972	-	-
Tax paid in advance	2,114	-	-	-	-	-	-	2,114
Deferred tax assets	3,133	-	-	-	-	-	-	3,133
Fixed assets	102,713	-	-	-	-	-	-	102,713
Other assets	22,400	2,315	15,130	4,955	-	-	-	-
Total assets	**2,168,465**	**322,475**	**345,882**	**656,177**	**323,606**	**412,365**	**-**	**107,960**
Liabilities								
Deposits and balances of banks	$6,196	6,196	-	-	-	-	-	-
Deposits from customers	1,328,135	5,555	425,369	445,036	437,725	14,450	-	-
Current taxation	-	-	-	-	-	-	-	-
Other liabilities	280,317	263,387	11,972	4,958	-	-	-	-
Total liabilities	**1,614,648**	**275,138**	**437,341**	**449,994**	**437,725**	**14,450**	**-**	**-**
Net liability gap	**553,817**	**47,337**	**(91,459)**	**206,183**	**(114,119)**	**397,915**	**-**	**107,960**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(c) Liquidity risk management (continued)

Analysis of non derivative assets and liabilities by remaining maturity
The following maturity profile is based on the remaining period at the end of reporting period to the contractual maturity date.

	2017							
	Total	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Indefinite
Assets								
Cash and balances with banks	185,970	185,970	-	-	-	-	-	-
Placements with banks	213,078	-	73,373	92,774	46,931	-	-	-
Investments	385,366	-	15,664	7,805	89,542	272,355	-	-
Trade bills	581,805	66,600	146,450	268,005	100,750	-	-	-
Advances to customers	674,697	75,351	165,458	278,533	45,286	110,069	-	-
Tax paid in advance	-	-	-	-	-	-	-	-
Deferred tax assets	4,093	-	-	-	-	-	-	4,093
Fixed assets	106,150	-	-	-	-	-	-	106,150
Other assets	84,668	1,119	37,482	37,843	8,224	-	-	-
Total assets	**2,235,827**	**329,040**	**438,427**	**684,960**	**290,733**	**382,424**	**-**	**110,243**
Liabilities								
Deposits and balances of banks	29,689	29,689	-	-	-	-	-	-
Deposits from customers	1,237,350	18,190	380,274	407,056	424,270	7,560	-	-
Current taxation	1,252	-	-	-	-	-	-	1,252
Other liabilities	412,803	328,647	38,089	37,843	8,224	-	-	-
Total liabilities	**1,681,094**	**376,526**	**418,363**	**444,899**	**432,494**	**7,560**	**-**	**1,252**
Net liability gap	**554,733**	**(47,486)**	**20,064**	**240,061**	**(141,761)**	**374,864**	**-**	**108,991**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(c) Liquidity risk management (continued)

The total gross undiscounted cash flows for the above liabilities are the same as shown above except for deposits and balances of banks and deposits from customers which are as follows:

	2018							
	Carrying amount	Total contractual undiscounted cash flows	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Indefinite
In thousands of HKD equivalents								
Deposits and balances of banks	6,196	6,196	6,196	-	-	-	-	-
Deposits from customers	1,328,135	1,340,579	5,570	426,737	449,907	458,365	-	-
	1,334,331	**1,346,775**	**11,766**	**426,737**	**449,907**	**458,365**	**-**	**-**

	2017							
	Carrying amount	Total contractual undiscounted cash flows	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Indefinite
In thousands of HKD equivalents								
Deposits and balances of banks	29,689	29,689	29,689	-	-	-	-	-
Deposits from customers	1,237,350	1,246,165	18,261	381,292	409,826	429,280	7,506	-
	1,267,039	**1,275,854**	**47,950**	**381,292**	**409,826**	**429,280**	**7,506**	**-**

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

28 Financial risk management (continued)

(d) Operational risk

Operational risk is the risk of potential loss arising from inadequate or failure in internal processes, people and systems or from external events.

The Board of Directors and senior management are responsible for approving and reviewing the overall business strategies and the policies for each major area of operations. A Risk and Compliance Management Committee is in place to manage operational risks.

The Bank recognises the importance of managing operational risk in a pro-active manner. Operational risk management tools and mechanisms adopted include operational risk incidents reporting, key risk indicators, operation manuals, accounting controls, business continuity planning, insurance policies etc.

The Bank attaches great importance to conducting its business in a safe and sound manner. Strict control is exercised at every level of operations. Additionally, an internal audit system plays an essential role in ensuring due adherence to policies, various internal and statutory limits, and regulatory requirements thus limiting operational risk.

(e) Capital management

The HKMA sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements the HKMA requires the Bank to maintain prescribed ratios of capital to total risk-weighted assets. The Bank's operations are categorised as banking book and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

In addition to meeting the regulatory requirements, the Bank's primary objectives when managing capital are to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk being taken and by securing access to finance at a reasonable cost.

The Bank actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. The Bank considers capital to include share capital and reserves.

The Bank monitors its capital adequacy ratios on a quarterly basis. The capital adequacy ratios are computed as specified by the HKMA for its regulatory purposes and are in accordance with the Banking (Capital) (Amendment) Rules 2012 and 2013 of the Hong Kong Banking Ordinance which came into effect from 1 January 2013 and 30 June 2013 respectively.

The Bank has complied with all capital requirements throughout the years ended 31 December 2018 and 2017 and is well above the minimum required ratio set by the HKMA.

29 Fair values of financial instruments

(a) Financial instruments carried at fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, the most suitable measure for fair value is the quoted market price. In the absence of organised secondary markets for most financial instruments, and in particular for loans, deposits and unlisted derivatives, direct market prices are not available. The fair value of such instruments was therefore calculated on the basis of well-established valuation techniques using current market parameters. In particular, the fair value is a theoretical value applicable at a given reporting date, and hence can only be used as an indicator of the value realisable in a future sale.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 - Unadjusted quoted prices in active markets for identical instruments at the measurement date.
- Level 2 - Observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 - Fair value measured using significant unobservable inputs.

(b) Fair value

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

	2018			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through other comprehensive income				
- Debt securities	-	167,357,202	-	167,357,202
Derivative financial instruments:				
- Forward exchange contracts	-	48,605	-	48,605
	-	167,405,807	-	167,405,807
Liabilities				
Derivative financial instruments:				
- Forward exchange contracts	-	196,820	-	196,820

Notes to the financial statements (continued)
(Expressed in Hong Kong dollars)

29 Fair values of financial instruments (continued)

(b) Fair value (continued)

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

	2017			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets:				
- Debt securities	-	41,237,811	-	41,237,811
Derivative financial instruments:				
- Forward exchange contracts	-	-	-	-
	-	41,237,811	-	41,237,811
Liabilities				
Derivative financial instruments:				
- Forward exchange contracts	-	-	-	-

During the year there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

30 Accounting estimates and judgements

Key sources of estimation uncertainty

Note 30 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Another key source of estimation uncertainty is as follows:

Impairment losses

Loans and advances

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Bank makes judgements as to whether there is any objective evidence that a loan is impaired. Objective evidence for impairment includes observable data that the payment status of borrowers in a group has adversely changed. It may also include observable data that local or economic conditions have worsened which correlate with defaults on the assets in the Bank. If management has determined, based on their judgement, that objective evidence for impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the Bank. Historical loss experience is adjusted on the basis of the current observable data.

Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Bank.

	Effective for accounting periods beginning on or after
HKFRS 16, Leases	1 January 2019
HK(IFRIC) 23, Uncertainty over income tax treatments	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019

The Bank is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Bank has not identified any new standards which may have a significant impact on the financial statements.

Unaudited supplementary financial information
(Expressed in Hong Kong dollars)

(a) Capital and capital adequacy

	2018	2017
Capital ratio:		
Common Equity Tier 1 ("CET1") Capital Ratio	31.07%	32.27%
Tier 1 Capital Ratio	31.07%	32.27%
Total Capital Ratio	32.50%	33.71%

The components of total capital before and after deductions are shown below:

	2018	2017
	'000	'000
CET1 Capital:		
CET1 Capital instruments	300,000	300,000
Retained earnings	226,867	228,671
Disclosed reserves	26,950	26,062
CET1 Capital before deductions	**553,817**	**554,733**
Regulatory deductions to CET1 capital:		
Reserves arising from revaluation of land and buildings	(11,244)	(11,244)
Reserve for general banking risk	(16,000)	(16,000)
Net deferred tax assets	(3,133)	(4,093)
Total CET1 Capital	**523,440**	**523,396**
Additional Tier 1 ("AT1") Capital	**-**	**-**
Total Tier 1 ("T1") Capital	**523,440**	**523,396**
Tier 2 ("T2") Capital		
Reserves arising from revaluation of land and buildings	5,060	5,060
Reserve for general banking risk and collective impairment allowances	18,953	18,219
Regulatory deductions to T2 capital	-	-
Total T2 Capital	**24,013**	**23,279**
Total Capital	**547,453**	**546,675**

Unaudited supplementary financial information (continued)
(Expressed in Hong Kong dollars)

(a) Capital and capital adequacy (continued)

The capital adequacy ratios were calculated in accordance with the Banking (Capital) Rules (the "Capital Rules"). In accordance with the Capital Rules, the Bank has adopted the "Basic Approach" for the calculation of the risk-weighted assets for credit risk, and the "Basic Indicator Approach" for the calculation of operational risk. The Bank has been exempted under section 22(1) of the Banking (Capital) Rules from the calculation of market risk under section 17.

CET1 capital instruments represents HK$300,000,000 (2017: HK$300,000,000) of issued and fully paid ordinary shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

The revaluation reserve has been set up in accordance with the accounting policies adopted for land and buildings. The revaluation reserve is not available for distribution to shareholders.

A regulatory reserve of $16,000,000 (2017: $16,000,000) is maintained to satisfy the provisions of the Hong Kong Banking Ordinance. Movements in the reserve are made directly through retained earnings.

A collective impairment allowance is maintained to cover potential impairment losses for a group of financial assets with similar credit risk characteristics where the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset.

Unaudited supplementary financial information (continued)
(Expressed in Hong Kong dollars)

(a) Capital and capital adequacy (continued)

No item benefits from the transitional arrangements set out in Section 4H to the Capital Rules.

To comply with the Banking (Disclosure) Rules, a section "Regulatory Disclosures" is available on the Bank's website at www.hbzhongkong.com and includes the following information:

- A detailed breakdown of the CETl capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions applied to the capital base of the institution by using the standard capital disclosures template as specified by the HKMA.
- A full reconciliation of the CETl capital items, Additional Tier 1 capital items, Tier 2 capital items and regulatory deductions applied to the capital base of the institution and the balance sheet in the published financial statements of the institution.
- A description of the main features and the terms and conditions of capital instruments issued by the institution.

(b) Leverage Ratio

	2018	2017
Leverage Ratio	22.07%	21.79%

	2018	2017
	'000	'000
Tier 1 Capital	**523,440**	**523,396**
Exposure Measure	**2,372,016**	**2,401,991**

The leverage ratio as at 31 December 2018 and 31 December 2017 were compiled in accordance with the Leverage Ratio Framework issued by the HKMA.

Leverage ratio disclosures as required by section 24A of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures of our website www.hbzhongkong.com.

Unaudited supplementary financial information (continued)
(Expressed in Hong Kong dollars)

(c) Countercyclical Capital Buffer Ratio

	2018	2017
Countercyclical Capital Buffer Ratio	1.639%	1.063%

The relevant disclosures pursuant to section 24B of the Banking (Disclosure) Rules for 2018 are available in the section of Regulatory Disclosures of our website www.hbzhongkong.com.

(d) Capital Conservation Buffer Ratio

Under section 3M of the Capital Rules, the capital conservation buffer ratios for calculating the Bank's buffer level are 1.875% for 2018 and 1.250% for 2017.

(e) Liquidity information

	2018	2017
Average liquidity maintenance ratio for the year	85.29%	90.28%

The average liquidity maintenance ratio ("LMR") for the year is calculated as the simple average of each month's average LMR as reported in the Liquidity Position Return.

Unaudited supplementary financial information (continued)
(Expressed in Hong Kong dollars)

(f) Segmental information

The Bank's total operating income (net of interest expense) and operating assets directly attributable to the following classes of business are set out below:

	2018			2017		
	Trade finance and deposits taking	Treasury and others	Total	Trade finance and deposits taking	Treasury and others	Total
Interest income calculated using the effective interest method	69,302,065	14,952,449	84,254,514	56,126,817	14,142,485	70,269,302
Interest expense	(21,111,903)	(1,334,529)	(22,446,432)	(17,194,661)	(761,359)	(17,956,020)
Net interest income	**48,190,162**	**13,617,920**	**61,808,082**	**38,932,156**	**13,381,126**	**52,313,282**
Fee and commission income	27,424,138	-	27,424,138	26,021,564	-	26,021,564
Fee and commission expense	(892,853)	-	(892,853)	(759,428)	-	(759,428)
Net fee and commission income	**26,531,285**	**-**	**26,531,285**	**25,262,136**	**-**	**25,262,136**
Other net income	**20,719,445**	**246,919**	**20,966,364**	**20,516,449**	**672,949**	**21,189,398**
Operating income	**95,440,892**	**13,864,839**	**109,305,731**	**84,710,741**	**14,054,075**	**98,764,816**
Operating expenses	(69,242,493)	(10,058,960)	(79,301,453)	(58,409,753)	(9,690,566)	(68,100,319)
Operating profit before provisions	**26,198,399**	**3,805,879**	**30,004,278**	**26,300,988**	**4,363,509**	**30,664,497**
Net charge of impairment allowances	(7,117,610)	-	(7,117,610)	(4,080,000)	-	(4,080,000)
Operating profit after provisions	**19,080,789**	**3,805,879**	**22,886,668**	**22,220,988**	**4,363,509**	**26,584,497**
Profit before taxation	**19,080,789**	**3,805,879**	**22,886,668**	**22,220,988**	**4,363,509**	**26,584,497**
Capital expenditure	-	835,117	835,117	-	1,534,572	1,534,572
Depreciation	(3,706,124)	(538,394)	(4,244,518)	(3,494,625)	(579,781)	(4,074,406)
Segment assets	1,370,433,582	798,031,433	2,168,465,015	1,335,919,934	899,907,045	2,235,826,979
Total assets	**1,370,433,582**	**798,031,433**	**2,168,465,015**	**1,335,919,934**	**899,907,045**	**2,235,826,979**
Segment liabilities	1,597,436,457	17,211,512	1,614,647,969	1,641,107,886	39,986,453	1,681,094,339
Total liabilities	**1,597,436,457**	**17,211,512**	**1,614,647,969**	**1,641,107,886**	**39,986,453**	**1,681,094,339**

Unaudited supplementary financial information (continued)
(Expressed in Hong Kong dollars)

(f) Segmental information (continued)

The Bank's principal activities are the taking of deposits and financing of import/export and local trade.

Segment information has been presented in two reportable segments as follows:

The major component of business is trade finance extended to customers by way of opening letters of credit and financing import and export bills. Within the trade finance portfolio, the emphasis is on purchasing/discounting of export bills with a wide geographical spread. Such advances are of short term duration, normally not exceeding 120 days. The short term nature of the advances provides a cushion against the pronounced adverse changes in the business and economic cycles, deflation in assets prices and risk transfer. The financing of import/export and local trade is sourced through deposits.

Treasury and others includes interbank and capital market activities.

Unaudited supplementary financial information (continued)
(Expressed in Hong Kong dollars)

(g) Advances to customers

(i) By industry sector

Loans and advances to customers analysed by the coverage of collateral, overdue amount and the impairment allowance is as follows:

2018

	Gross loans and advances	% of gross loans and advances covered by collateral	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment charged to statement of comprehensive income during the year	Impaired loans written off during the year
	’000		’000	’000	’000	’000	’000	’000
Loans for use in Hong Kong individual - other loans	3,390	100%	-	-	-	-	-	-
Trade finance	784,033	33.3%	63,892	20,703	5,714	15,684	3,978	11,064

2017

	Gross loans and advances	% of gross loans and advances covered by collateral	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment charged to statement of comprehensive income during the year	Impaired loans written off during the year
	’000		’000	’000	’000	’000	’000	’000
Loans for use in Hong Kong individual - other loans	10,797	100%	-	-	-	-	-	48
Trade finance	682,697	28.1%	76,674	28,902	12,242	6,555	4,734	3,252

Unaudited supplementary financial information (continued)
(Expressed in Hong Kong dollars)

(g) Advances to customers (continued)

(ii) By geographical area

Advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when an advance is guaranteed by a party in an area which is different from that of the counterparty, or if the claims are on an overseas branch of a bank whose head office is located in another country.

	2018	2017
Gross advances to customers		
Hong Kong	760,261,758	664,228,772
Asia Pacific excluding Hong Kong	302,857	3,915,181
Africa, Caribbean, Latin America and North America	26,817,635	25,349,752
Europe	-	-
	787,382,250	**693,493,705**

All impaired advances to customers at 31 December 2018 and 2017 are located in Hong Kong.

Unaudited supplementary financial information (continued)
(Expressed in Hong Kong dollars)

(h) Overdue and rescheduled assets

The gross amount of overdue assets are as follows:

	2018							
	Advances to customers				Trade bills			
	Amount	Collateral value	% of gross advances	Impairment allowance	Amount	Collateral value	% of gross trade bills	Impairment allowance
Overdue for:								
-6 months or less but over 3 months	837,440	-	-	837,440	-	-	-	-
-1 year or less but over 6 months	-	-	-	-	-	-	-	-
-Over 1 year	-	-	-	-	-	-	-	-
	837,440	-	-	837,440	-	-	-	-

	2017							
	Advances to customers				Trade bills			
	Amount	Collateral value	% of gross advances	Impairment allowance	Amount	Collateral value	% of gross trade bills	Impairment allowance
Overdue for:								
-6 months or less but over 3 months	11,666,528	10,868,879	1.69%	-	-	-	-	-
-1 year or less but over 6 months	1,858,814	750,000	0.27%	400,000	-	-	-	-
-Over 1 year	8,639,664	10,000	1.25%	8,501,195	6,802,509	-	1.15%	5,920,000
	22,165,006	11,628,879	3.21%	8,901,195	6,802,509	-	1.15%	5,920,000

Collaterals held with respect to overdue advances to customers and trade bills are cash deposits and mortgage property with the Bank.

Unaudited supplementary financial information (continued)
(Expressed in Hong Kong dollars)

(i) Non-bank Mainland exposures

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the Hong Kong Monetary Authority under the Banking (Disclosure) Rules with reference to the Hong Kong Monetary Authority Return of Mainland Activities.

2018	On-balance sheet exposure	Off-balance sheet exposure	Total
	’000	’000	’000
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	49,118	-	49,118
2. Local governments, local government-owned entities and their subsidiaries and JVs	61,048	-	61,048
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	-	-	-
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	187,964	87,433	275,397
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	68,723	6,092	74,815
	366,853	$93,525	460,378
Total assets after provision	2,156,188		
On-balance sheet exposures as percentage of total assets	17.01%		

2017	On-balance sheet exposure	Off-balance sheet exposure	Total
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	47,485	-	47,485
2. Local governments, local government-owned entities and their subsidiaries and JVs	68,388	-	68,388
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	-	-	-
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	182,183	106,428	288,611
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	54,508	5,528	60,036
	352,564	111,956	464,520
Total assets after provision	2,156,409		
On-balance sheet exposures as percentage of total assets	16.35%		

Unaudited supplementary financial information (continued)
(Expressed in Hong Kong dollars)

(j) International claims

The country risk exposures are prepared according to the location and types of the counterparties as defined by the Hong Kong Monetary Authority under the Banking (Disclosure) Rules with reference to the Hong Kong Monetary Authority's Return of International Banking Statistics. International claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies. International claims on individual areas, after risk transfer, amounting to 10% or more of the aggregate international claims are shown as below.

		Non-bank private sector			
	Banks	Official sector	Non-bank financial	Non-financial private sector	Total
HK$ million equivalent					
As at 31 December 2018					
Developed countries	26	-	-	75	101
Offshore centres	77	-	-	541	618
of which Hong Kong	75	-	-	503	578
Developing Europe	3	-	-	51	54
Developing Latin America and Caribbean	21	-	-	49	70
Developing Africa and Middle East	41	-	-	93	134
Developing Asia and Pacific	333	-	-	285	618
Total	**501**	**-**	**-**	**1,094**	**1,595**

Unaudited supplementary financial information (continued)
(Expressed in Hong Kong dollars)

(j) International claims (continued)

		Non-bank private sector			
	Banks	Official sector	Non-bank financial	Non-financial private sector	Total
HK$ million equivalent					
As at 31 December 2017					
Developed countries	44	-	-	85	129
Offshore centres	103	-	-	514	617
of which Hong Kong	102	-	-	475	577
Developing Europe	6	-	-	45	51
Developing Latin America and Caribbean	13	-	-	40	53
Developing Africa and Middle East	41	-	-	124	165
Developing Asia and Pacific	357	8	-	255	620
Total	**564**	**8**	**-**	**1,063**	**1,635**

Unaudited supplementary financial information (continued)
(Expressed in Hong Kong dollars)

(k) Remuneration system

The Bank has adopted and is committed to promoting a sound and prudent remuneration system in accordance with the guideline in Part 3 of the Supervisory Policy Manual Module CG-5 "Guideline on a Sound Remuneration System" issued by the HKMA.

The Bank recognises that achievement of its mission, vision and strategic objectives depends on the quality and commitment of its staff. The principles of the HBZ Remuneration Policy reflect its goal to attract, retain, motivate and reward quality staff. The guiding principles used to determine the institution-wide remuneration policy are based on sound governance, internal equality, competitiveness, sustainability and conservative approach to risk-taking. The remuneration policy is reviewed annually by the Board of Directors.

To establish the relative merit and worth of each position and ensure equity in remuneration, a performance appraisal system is in place and is consistently applied across all areas of work and responsibilities. Performance of individual employees is based on a set of pre-defined criteria which are determined according to the individual's designation as well as relevant qualitative and quantitative factors. Promotions and increments are linked to performance appraisals.

The parameters used for allocating cash versus other forms of remuneration depend on the organizational status of the employee. The remuneration package across the organization is structured with a fixed compensation component only. The remuneration package comprises of basic salary, allowances, retirement scheme contributions, bonuses and benefits. A provident fund under the Occupational Retirement Scheme Ordinance and a Mandatory Provident Fund Scheme under the Mandatory Provident Fund Scheme Ordinance are also in place.
The senior management comprises of the Chief Executive, the Chief Executive Designate and two Alternate Chief Executives while key personnel include three senior executives of the Bank. The aggregate remuneration for senior management and key personnel are shown below in accordance with the disclosure requirement of the afore-mentioned guideline:

	2018		**2017**	
	Senior Management	Key Personnel	Senior Management	Key Personnel
Fixed Remuneration				
- Cash based	9,146,733	1,617,250	6,884,134	1,974,226
- Retirement scheme contributions	486,388	84,107	371,873	53,943
- Benefit in kind	300,000	-	600,000	-
- Deferred compensation	490,000	-	-	-

Benefit in kind represents provision of the Bank's residential apartment. No sign-on award or severance payments were made to the senior management or key personnel during the year.

Unaudited supplementary financial information (continued)
(Expressed in Hong Kong dollars)

(l) Specific disclosures and additional quarterly disclosures

The specific disclosures and additional quarterly disclosures to be made by authorized institutions incorporated in Hong Kong respectively required by Part 2A and 2B of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures of our website www.hbzhongkong.com.

(m) Classes of exposure

The capital requirements on each class of exposures calculated under the basic (credit risk) approach at the reporting date can be analysed as follows:

	2018	2017
	’000	’000
Sovereign	157	634
Bank	11,013	15,066
Corporate	98,308	86,621
Other exposures which are not past due	8,860	8,909
Past due	100	3,476
Total capital requirements for on-balance sheet exposures	118,438	114,706
Trade-related contingencies	3,539	5,371
Exchange rate contracts	18	-
Total capital requirements for off-balance sheet exposures	3,557	5,371
	121,995	120,077

(n) Capital charge

The capital charge for operational risk calculated in accordance with the basic indicator approach at the end of the reporting period is:

	2018	2017
	’000	’000
Capital charge for operational risk	15,084	14,458

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Services we offer

We offer a wide range of financial services for Trade related activities. Our growth and successful operations are singularly fueled by our commitment to provide effcient services and rapid response to our customers' need. Flexibility and capability to tailor make products to meet and anticipate emerging needs are the trade marks our customers have come to appreciate.

Our products include:

Corporate Financial Services

- Multi-currency Deposits - both Call and Term
- Foreign Exchange Transactions
- Letters of Credit & Guarantees
- Post Import Finance
- Pre-shipment Finance
- Export Documents Purchase and Discounting
- Accounts Receivable Financing
- Revolving and Term Loans
- Documentary Collection
- International Payments
- Customised Trade Solutions
- Trade Information and Access to International Network of Correspondent Banks

Financial Institutional Services

- Letters of Credit Advising and Confirmation
- Negotiation and Discounting of Documents under Letters of Credit
- Rediscounting of Bankers Acceptances / Forfaiting
- Buyers Credit
- Financial Institution Loans